



# PRECIOUS METAL RESOURCES LIMITED

**Precious Metal Resources Limited**  
ACN 145 105 148

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## Contact

Peter Kennewell CEO

email: pkennewell@pmrl.com.au

## Latest News

[www.pmrl.com.au](http://www.pmrl.com.au)

## Directors / Officers

John Foley (Chairman)  
Peter Kennewell (CEO)  
Bruce Dennis  
Michael Leu  
Peter Meers

## ASX Symbol: PMR

Halls Peak is the inferred volcanic centre for extensive small but high grade Volcanic Massive Sulphide (VMS) deposits rich in copper, lead, zinc and silver, with variable but largely untested gold values. Current exploration aims to locate the right depositional environment to host a high-grade deposit of between 30,000 and 170,000 tonnes within a global exploration target of 5 - 70 million tonnes of mixed grade mineralisation. Several geochemical and geophysical anomalies are also present that should identify further high grade, near-surface sulphides.

Additional to the VMS prospectivity, there are indications for the presence of orogenic gold from breccia floaters and small pods of Au-rich quartz on the tenements carrying 1 to 10 g/t Au.

A substantial body of exploration data has been generated over the years by the Geological Survey of NSW and a number of major mining companies including BHP Ltd., MIM Ltd., The Zinc Corporation, Allstate Exploration NL, Carpentaria Exploration Co. Ltd., CRA Exploration Limited and Amoco Minerals Australia Co.

PMR is expanding on this work.

2 August 2012

Company Announcement Office  
Australian Securities Exchange Limited

## Off-market takeover bid by Sovereign Gold Company Limited - Supplementary Target's Statement

In accordance with section 647(3)(b) of the *Corporations Act 2001* (Cth), we attach a copy of Precious Metal Resources Limited (PMR) supplementary target's statement dated 2<sup>nd</sup> August 2012 (**Supplementary Target's Statement**) with respect to the off-market takeover bid by Sovereign Gold Company Limited (ACN 145 184 667) for all of the ordinary shares in PMR that it does not already own.

This document supplements PMR's Target's Statement dated 25 July 2012.

A copy of the Supplementary Target's Statement was lodged with the Australian Securities and Investments Commission and served on Sovereign Gold Company Limited earlier today.

## For further information please contact

Henry Kinstlinger  
Precious Metal Resources Limited

Telephone: +61 2 9251 7177



**PRECIOUS METAL RESOURCES LIMITED**

## **SUPPLEMENTARY TARGET'S STATEMENT**

in response to the off-market takeover offer by

**SOVEREIGN GOLD COMPANY LIMITED**

(ACN 145 184 667)

to acquire all the ordinary shares issued by

**PRECIOUS METAL RESOURCES LIMITED**

(ACN 145 105 148)

**The Independent Directors of Precious Metal Resources Limited  
recommend you **ACCEPT** the Offer in the absence of a Superior  
Proposal and a Material Adverse Event.**

**This is an important document and should be read in its entirety. If you do not understand it or are in doubt as to how to act you should consult your legal, financial or other professional adviser immediately.**

### **SUPPLEMENTARY TARGET'S STATEMENT**

This Supplementary Target's Statement has been issued by Precious Metal Resources Limited (ACN 145 105 148) in response to the takeover offer by Sovereign Gold Company Limited (ACN 145 184 667) for all the ordinary shares in Precious Metal Resources Limited not owned by Sovereign Gold.

This Supplementary Target's Statement supplements the Original Target's Statement dated 25 July 2012.

## **1. IMPORTANT INFORMATION**

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### **1.1 Supplementary Target's Statement**

This document is a supplementary target's statement under section 644(1) of the Corporations Act (**Supplementary Target's Statement**). It supplements the target's statement issued by Precious Metal Resources Limited (ACN 145 105 148) (**PMR**) dated 25 July 2012 (**Original Target's Statement**) given in connection with a takeover bid by Sovereign Gold Company Limited (ACN 145 184 667) (**Sovereign Gold**) to acquire your fully paid ordinary shares in PMR (**Offer**).

A copy of this Supplementary Target's Statement was lodged with ASIC and provided to the ASX on 2<sup>nd</sup> August 2012.

Neither ASIC, ASX or any of their respective officers or employees take any responsibility for the content of this Supplementary Target's Statement.

This Supplementary Target's Statement supplements, and should be read together with, the Original Target's Statement.

### **1.2 Investment decisions**

This Supplementary Target's Statement does not take into account the investment objectives, financial situation or particular needs of any person. Before making any investment decision on the basis of this document you should consider whether that decision is appropriate in the light of those factors and seek independent financial and taxation advice if necessary.

### **1.3 Offer Information Line**

If you have any queries in relation to the Offer or this Supplementary Target's Statement, please contact the Offer Information Line on +61 2 9251 7177 between 9.00am and 5.00pm (AEST) Monday to Friday.

Further information relating to the Offer can be obtained from PMR's website at [www.pmrl.com.au](http://www.pmrl.com.au).

## **2. INDEPENDENT EXPERT'S REPORT**

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The Independent Expert Report (**IER**) in the Original Target's Statement (**Original IER**) is signed by Stuart H. Cameron, as an Authorised Representative of Alpha Securities Pty Limited (**Alpha Securities**).

Mr Cameron, as an employee of K.S. Black & Co, also signed the auditor's report attached to Sovereign Gold's latest half-year accounts (dated 29 August 2011) and the Investigating Accountant's Report in PMR's IPO prospectus (dated 26 October 2011).

Whilst the Original IER was prepared by Mr Cameron in his capacity as the Authorised Representative of Alpha Securities rather than that of auditor or Investigating Accountant, in order to ensure that there was no question that the guidelines in ASIC's Regulatory Guide 112 Independence of experts were met, PMR commissioned Pitcher Partners NSW Corporate Pty Limited (**Pitcher Partners**) to prepare a second IER, replacing the Original IER (**Replacement IER**).

Pitcher Partners have also expanded on the valuation analysis used in determining the value of Sovereign Gold's Offer.

Pitcher Partners have found the Offer is fair and reasonable. This is the same conclusion reached in the Original IER.

The Replacement IER is attached as Appendix A to this Supplementary Target's Statement.

### **3. CHANGES TO ORIGINAL TARGET'S STATEMENT**

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The Original Target's Statement contains references to the Original IER; accordingly, the following changes to the Original Target's Statement are made:

**Inside Front Cover:**

**Independent Expert**

~~Alpha Securities Pty Ltd  
Level 2, 22 Pitt Street  
Sydney NSW 2000~~

~~Telephone: +61 2 9299 9270~~

Is replaced with:

Pitcher Partners NSW Corporate Pty Limited  
Level 2, MLC Centre  
19 Martin Place NSW 2000

Telephone: +61 2 9221 2099

**On Page 6:**

**INDEPENDENT EXPERT'S REPORT**

The Independent Expert, ~~Alpha Securities Pty Ltd~~, Pitcher Partners NSW Corporate Pty Limited has concluded that the Offer is fair and reasonable to PMR Shareholders (see Independent Expert's Report in Appendix A of the Supplementary Target's Statement).

**On Page 8:**

**1.3 The Independent Expert has concluded that the Offer is fair and reasonable**

PMR engaged ~~Alpha Securities Pty Ltd~~ Pitcher Partners NSW Corporate Pty Limited as an independent expert to provide a report as to whether the Offer is fair and reasonable to PMR Shareholders. The Independent Expert assessed the value of 10 PMR Shares to be between \$2.15 and \$2.35, and assessed the value of the consideration (9 Sovereign Gold Shares) to be between \$2.40 and \$2.55.

As the value of the consideration to be received by PMR Shareholders under the Offer equals or exceeds the value of PMR Shares, in the opinion of the Independent Expert, the Offer is fair and, consistent with ASIC Regulatory Guide 111, also reasonable.

The Independent Expert's Report dated 2<sup>nd</sup> August 2012 is set out in Appendix A to the Supplementary Target's Statement.

**On Page 21:**

Clause 7.1 (e) is replaced with: "23.4 cents per PMR Share as at 24 July 2012<sup>3</sup>".

**On Page 26:**

Section 8.9 (a) is replaced with:

"the retention of the Independent Expert to prepare the Independent Expert's Report in Appendix A of the Replacement Target's Statement at a cost of \$20,000".

It should be noted that no fees are payable with respect to the Original IER.

**On Page 29:**

**Independent Expert** means ~~Alpha Securities Pty Ltd ACN 124 327 064~~ Pitcher Partners NSW Corporate Pty Limited ACN 103 614 446.

**Independent Expert's Report** means the report in Appendix A of the Supplementary Target's Statement.

#### **4. DIRECTORS RECOMMENDATION**

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The Independent Directors of PMR recommend that you **ACCEPT** the Offer in respect of all your PMR Shares, subject to there being no Superior Proposal, and no Material Adverse Event having occurred.

The Directors of PMR recommend that you read the Original Target's Statement, including the Replacement IER, in full to ensure that you understand the Independent Expert's conclusions. A full copy of the Independent Expert's Report is contained in Annexure A to this Supplementary Target's Statement.

#### **5. ADDITIONAL INFORMATION**

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##### **5.1 Defined terms**

Capitalised terms used in this Supplementary Target's Statement have the same meaning as given in section 9 of the Original Target's Statement, unless the context requires otherwise.

##### **5.2 Consent to be named**

###### **Independent Expert – Replacement IER**

This Supplementary Target's Statement contains statements made by, or statements said to be based on statements made by Pitcher Partners NSW Corporate Pty Limited as independent expert (**Consenting Party**). The Consenting Party has consented to the inclusion of each statement it has made in the form and context in which that statement appears and has not withdrawn that consent at the date of this Supplementary Target's Statement.

###### **Independent Expert – Original IER**

Alpha Securities Pty Ltd has given and not withdrawn its consent before the date of this Supplementary Target's Statement to being named in this Supplementary Target's Statement in the form and context in which it is so named.

Stuart H. Cameron has given and not withdrawn his consent before the date of this Supplementary Target's Statement to being named in this Supplementary Target's Statement in the form and context in which he is so named.

#### **6. AUTHORISATION**

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This Supplementary Target's Statement has been approved by a resolution passed at a meeting of the PMR Directors.

DATED 2nd August 2012

SIGNED for and on behalf of Precious Metal Resources Limited



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Peter Kennewell  
Director

**APPENDIX A**  
**REPLACEMENT INDEPENDENT EXPERT'S REPORT**

**Precious Metal Resources  
Limited**

**Independent Expert's Report**

**2 August 2012**



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19 Martin Place  
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Pitcher Partners, including Johnston Rorke,  
is an association of independent firms  
Melbourne | Sydney | Perth | Adelaide | Brisbane

G

2 August 2012

The Directors  
Precious Metal Resources Limited  
Level 2, Hudson House  
131 Macquarie Street  
Sydney NSW 2000

Dear Sirs

## Independent Expert's Report

### 1. Introduction

1.1 Pitcher Partners NSW Corporate Pty. Limited ("**Pitcher Partners**") has been engaged by the Independent Directors of Precious Metal Resources Limited ("**PMR**") to prepare an Independent Expert's Report ("**the Report**") to express an opinion as to whether or not the terms of the off-market takeover offer by Sovereign Gold Company Limited ("**SOC**") to acquire all or any of the ordinary shares in PMR on the basis of 9 shares in SOC for every 10 shares held in PMR ("**the Takeover Offer**") is fair and reasonable to the shareholders of PMR.

1.2 Pitcher Partners NSW Corporate Pty Limited holds Australian Financial Services Licence 227719 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

### 2. Summary of Opinion

2.1 In our opinion, and for the reasons set out in Sections 8 and 10 of this report, the Takeover Offer is **Fair and Reasonable** for the Shareholders of PMR.

#### *Fairness*

2.2 In order to assess the fairness of the Takeover Offer, we have compared the value of the parcel of shares offered by SOC to the value of the shares in PMR being acquired as summarised in the table below:

	Low Value per Share Parcel	High Value per Share Parcel
Pitcher Partners assessed value of 10 shares in PMR	\$2.15	\$2.35
Pitcher Partners assessed value of 9 shares in SOC	\$2.40	\$2.55

- 2.3** As the value of the 9 shares in SOC being received in consideration is greater than the 10 shares in PMR, and in the absence of other information, we are of the opinion that the Takeover Offer is fair.
- 2.4** A control premium of between 9% and 11% is included in the offer by SOC. Despite market averages being around the 25% to 30% this lower level is in our opinion reasonable given how close to a merger of two equals the transaction is.

### **3. Reasonableness**

**3.1** As the Proposed Transaction is fair, it is considered to be reasonable in accordance with the guidance provided by the Australian Securities and Investment Commission (“ASIC”). However, we have also considered the following factors in our assessment:

- The future prospects of the Company if the Proposed Transaction does not proceed; and
- Any other commercial advantages and disadvantages to the Shareholders as a consequence of the Proposed Transaction proceeding.

**3.2** The key advantages of the Proposed Transaction are:

- PMR shareholders who accept the offer will receive shares in SOC as consideration. SOC is a company with a more diversified portfolio of projects and greater resources to manage the projects of PMR.
- Overall savings in administration and compliance costs should be achieved, resulting in greater return to all shareholders.
- The shares in PMR currently escrowed will be released and the shares in SOC acquired as a result will not be restricted. As such there will be considerably more securities available to be traded which may increase liquidity in the shares in SOC, as compared to the current liquidity of the shares in PMR.
- SOC may be in a better position to raise capital to fund ongoing exploration and development than PMR.

**3.3** The key disadvantages of the Proposed Transaction are:

- PMR shareholders will hold a lesser % interest in the shares in SOC than they held in PMR.
- The Board of SOC will control the future direction of the business operations of the PMR assets.
- The release from escrow of the PMR shares to enable the takeover, and the fact that the SOC shares acquired will not be subject to restrictions, may result in substantial numbers of shares being offered for sale on the market, thus forcing prices down below the expected levels following completion.

**3.4** We are not aware of any alternative proposals which may provide a greater benefit to the Shareholders of PMR at this time.

**3.5** In our opinion, the position of the Shareholders of PMR if the Takeover Offer is accepted is more advantageous than the position if it is not accepted. Therefore, in the absence of any



other relevant information and/or a superior offer, we consider that the Proposed Takeover Offer is reasonable for the Shareholders of PMR.

#### **4. Summary of Takeover Offer**

- 4.1** On 10 July 2012 SOC announced an off-market takeover bid for all of the issued shares in PMR.
- 4.2** On 20 July 2012 SOC lodged the Bidder's Statement dated 20 July 2012 with the Australian Securities and Investments Commission ("**ASIC**") and served the Bidder's Statement on PMR.
- 4.3** On 25 July 2012 PMR lodged a Target's Statement dated 25 July with ASIC. The Target's Statement included as Appendix B a Report by Alpha Securities Pty. Limited which was stated to be an Independent Expert's Report.
- 4.4** On 27 July 2012 ASIC advised the directors of PMR that they had a number of concerns regarding the report included as Appendix B to the Target's Statement relating to both the independence of the author of the report and the failure of the report to address specific issues.
- 4.5** On 27 July 2012 Pitcher Partners were engaged by the non-associated directors of PMR to prepare a new Independent Expert's report to be issued in a supplementary Target's statement.

#### **5. Purpose of the Report**

- 5.1** SOC does not currently hold a relevant interest in any of the ordinary shares in PMR. However SOC and PMR do have two common directors and as a result Section 640 of the Corporations Act 2001 (Cth) ("**Corporations Act**") requires that a target's statement given in accordance with Section 638 of the Corporations Act must include, or be accompanied by, a report by an expert that states, whether, in the expert's opinion, the takeover offer is fair and reasonable and gives the reasons for forming that opinion.
- 5.2** This report is to be released as a supplementary target's statement on or around 1 August 2012 and has been prepared for the exclusive purpose of assisting the shareholders in their consideration of the Takeover Offer from SOC. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

#### **6. Basis of Evaluation**

- 6.1** In determining whether the Takeover Offer is "fair and reasonable" we have given regard to the views expressed by ASIC in Regulatory Guide 111 Contents of Expert's Reports ("**RG 111**").
- 6.2** RG 111 states that:

- an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company;
- an offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:
  - the offeror's pre-existing entitlement, if any, in the shares of the target company;
  - other significant shareholding blocks in the target company;
  - the liquidity of the market in the target company's securities;
  - taxation losses, cash flow or other benefits through achieving 100% ownership of the target company;
  - any special value of the target company to the offeror, such as particular technology and the potential to write off outstanding loans from the target company;
  - the likely market price if the offer is unsuccessful; and
  - the value to an alternative offeror and likelihood of an alternative offer being made.

### **6.3** In order to assess whether the Takeover Offer is fair and reasonable we have;

- assessed whether the Takeover Offer is fair by estimating the fair market value of 10 shares in PMR and comparing that value to the estimated fair market value of the 9 shares in SOC to be received as consideration by Shareholders pursuant to the Takeover Offer; and
- assessed the reasonableness of the Takeover Offer by considering other advantages and disadvantages of the Takeover Offer to Shareholders.

## **7 Independence**

**7.1** Prior to accepting this engagement, Pitcher Partners considered its independence with respect to the Takeover Offer with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("RG 112").

**7.2** Pitcher Partners has no professional involvement with any of PMR, SOC, their directors and shareholders, nor interest in, the outcome of the approval of the Takeover Offer other than that of an independent expert. Pitcher Partners is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report. The fee for this report will be \$20,000 plus GST.

**7.3** Except for these fees, Pitcher Partners will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Takeover Offer.

**7.4** A draft of this report was provided to the non-associated directors of PMR for confirmation of factual accuracy of its contents. Other than spelling corrections no other changes were made to the Report as a result of this review.

## **8 Limitations and Reliance on Information**

- 8.1** We have considered a number of sources in preparing this independent expert's report and arriving at our opinion. These sources of information are detailed in Appendix 3.
- 8.2** This report is based upon financial and other information provided by the non-associated directors of PMR and other information available on public record. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Takeover Offer is fair and reasonable to the Shareholders of PMR. However we do not warrant that our enquiries have identified all of the matters that an audit, or an extensive examination or due diligence might disclose.

## **9 Qualifications**

Ms Deborah Cartwright is a director of Pitcher Partners NSW Corporate Pty Limited. Ms Cartwright is a Chartered Accountant with extensive experience in the field of corporate valuations and the provision of independent expert's reports and investigating accountant reports for transactions involving publicly listed and unlisted companies in Australia.

## **10 Consent**

Pitcher Partners NSW Corporate Pty Limited consents to the inclusion of this report in the form and context in which it is included with the Supplementary Target's Statement to be issued to shareholders. Other than this report, none of the staff of Pitcher Partners NSW Corporate Pty Limited has been involved with the preparation of the Target's Statement and Supplementary Target's Statement and accordingly we take no responsibility for the contents.

## **11 Indemnity**

PMR has indemnified Pitcher Partners and their respective officers and employees, who may be involved in or in any way associated with this report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by Pitcher Partners, occasioned by reliance by Pitcher Partners on information provided by PMR or its representatives which is subsequently found to be false or misleading or not complete.

Complete information is deemed to be information, which at the time of completing this report should have been available to Pitcher Partners and would reasonably be expected to have been made available to Pitcher Partners to enable us to form our opinion. PMR will reimburse any indemnified party for all expenses (including but without limitation, legal expenses) on a full indemnity basis.

Yours faithfully,



DEBORAH CARTWRIGHT  
Director  
Pitcher Partners NSW Corporate Pty Limited

## Independent Expert's Report

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# Financial Services Guide

2 August 2012

## What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Pitcher Partners NSW Corporate Pty Ltd. The use of "we", "us" or "our" is a reference to Pitcher Partners NSW Corporate Pty Ltd as the holder of Australian Financial Services Licence ("AFSL") No. 227719. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide.
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

## Information about us

We have been engaged by you to give general financial product advice in the form of a report to be provided to you in connection with a financial product to be issued by another party. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us by writing to Level 22 MLC Centre, 19 Martin Place, SYDNEY NSW 2000, or by telephone on +61 (02) 9221 2099.

Pitcher Partners NSW Corporate Pty Ltd is ultimately owned by Pitcher Partners NSW Pty Ltd, a provider of accounting, tax, corporate advisory, superannuation, investment advisory and consulting services. Directors of Pitcher Partners NSW Corporate Pty Ltd are directors of Pitcher Partners NSW Pty Limited.

Pitcher Partners NSW Pty Limited is an independent member of Pitcher Partners. As such, neither it nor any of the other independent member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the name "Pitcher Partners", or other related names.

The financial product advice in our report is provided by Pitcher Partners NSW Corporate Pty Ltd and not by Pitcher Partners NSW or its related entities.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, we and the Pitcher Partners NSW Pty Limited (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

## What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial advice only in respect to interests in managed investment schemes, excluding investor directed portfolio services, and securities.

## Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement ("PDS") or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

Level 22  
19 Martin Place  
SYDNEY NSW 2000  
Tel: 02 9221 2099  
Fax: 02 9223 1762

## How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Pitcher Partners NSW Corporate Pty Ltd nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee will be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product it required.

All of our employees receive a salary with some directors also having an equity interest in the company. We do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

## What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Managing Partner  
Pitcher Partners NSW Pty Limited  
Level 19, MLC Centre  
19 – 29 Martin Place  
SYDNEY NSW 2000

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service  
Telephone: 1800 335 405  
Internet: <http://fics.asn.au>

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630  
Email: [info@asic.gov.au](mailto:info@asic.gov.au)  
Internet: <http://www.asic.gov.au/asic/asic.nsf>

## DETAILED REPORT

### 1 TERMS OF THE TAKEOVER OFFER

#### 1.1 Background

- On 10 July 2012 SOC announced an off-market takeover bid for all of the issued shares in PMR.
- On 20 July 2012 SOC lodged the Bidder's Statement dated 20 July 2012 with the Australian Securities and Investments Commission ("ASIC") and served the Bidder's Statement on PMR.
- On 25 July 2012 PMR lodged a Target's Statement dated 25 July with ASIC. The Target's Statement included as Appendix B a Report by Alpha Securities Pty. Limited which was stated to be an Independent Expert's Report.
- On 27 July 2012 ASIC advised the directors of PMR that they had a number of concerns regarding the report included as Appendix B to the Target's Statement relating to both the independence of the author of the report and the failure of the report to address specific issues.
- On 27 July 2012 Pitcher Partners were engaged by the non-associated directors of PMR to prepare a new Independent Expert's report to be issued in a supplementary Target's Statement.

#### 1.2 The Takeover Offer

Under the Takeover offer SOC will acquire up to 100% of the issued capital of PMR under a conditional off-market takeover pursuant to Chapter 6 of the Corporations Act.

Under the Takeover Offer, SOC has offered 9 SOC shares for every 10 PMR shares held.

No offer has been made for the Options issued by PMR. The options will vest pursuant to this offer becoming unconditional, and option holders will have the opportunity to exercise the options at the exercise price of 30 cents per share. Each share received by the option holders will qualify under the terms of the offer of 9 SOC shares for every 10 PMR shares held. As the options are out of the money we do not anticipate that any will be exercised and this report has been prepared on that basis.

#### 1.3 Key Conditions of the Takeover Offer

The Takeover Offer is subject to the following conditions which must be met or waived:

- SOC acquiring a relevant interest in at least 80% (by number) of PMR shares;
- Receipt of all regulatory approvals;
- No restraint arising that adversely affects the Offer;
- No conduct by PMR that is outside its ordinary course of business;
- No PMR Prescribed Occurrence occurring;
- No PMR Material Adverse Change occurring; and
- Representations regarding PMR's issued securities continue to be true and correct.

The terms referred to in this Section are all defined in the Target's Statement.

If SOC acquires a relevant interest in 90% or more of PMR shares, and subject to the other conditions of the Takeover Offer being met or waived, SOC intends to proceed to compulsorily acquire the remaining shares in PMR.

#### **1.4 SOC's Intentions**

As set out in Section 7 of the Bidder's Statement, upon completion SOC intends to maintain PMR's tenements and work towards the development of its resources. These assets, brought to development, may be valuable for SOC and the Merged Group. The further intentions of SOC then vary depending on the level of the relevant interest in PMR acquired by SOC, as follows;

##### **1.4.1 Intentions following SOC acquiring a relevant interest in 90% or more of PMR Shares.**

###### **(a) Corporate Matters**

- If it is entitled to under the Corporations Act, SOC will seek to proceed with the compulsory acquisition of the outstanding PMR Shares in accordance with the provision of the Corporations Act.
- At the completion of the compulsory acquisition process, PMR will be a wholly owned subsidiary of SOC and SOC intends to make arrangements for PMR to be removed from the official list of the ASX, subject to obtaining any required approvals.

###### **(b) Operations, developments and exploration**

- To operate and manage PMR's business together with the business of SOC
- Reduce or eliminate costs arising from the maintenance of separate share registry, secretarial, head office and administration functions and costs associated with the listing of PMR; and
- Review all of PMR's exploration interests and activities to determine appropriate requirements for the operation, management and funding of both PMR's and SOC's businesses and, where appropriate, the integration of these activities and tenement holdings into a group structure.

###### **(c) PMR Management**

- SOC intends that Mr Peter Kennewell, being the only person employed by PMR at the date of the Bidder's Statement, will be transferred to SOC with no change to his entitlements. No loss of knowledge is anticipated.

##### **1.4.2 Intentions if SOC acquires a Relevant Interest in at least 80% but less than 90% of PMR Shares.**

###### **(a) Corporate Matters**

- SOC intends to maintain PMR's listing on the ASX while it meets ASX requirements for maintain a listing and it is cost effective to do so;
- If SOC becomes entitled at some later time to exercise compulsory acquisition rights under the Corporations Act, it intends to exercise those rights.

### **(b) Assumption of control of Board and management**

Subject to the Corporations Act and the constitution of PMR, SOC will seek to add two members to the Board of PMR to reflect SOC's proportionate ownership interest in PMR. Through its nominees on the Board, SOC will seek to implement the intentions detailed in Section 1.4.1(b) above to the extent that they are consistent with PMR being a controlled entity of SOC and are considered to be in the best interests of all PMR shareholders. SOC has stated that they have made no decision as to the identity of those proposed directors.

### **(c) Other Intentions**

On the basis of the information concerning PMR which is known to SOC at the date of the Bidder's Statement and the existing circumstances affecting the business of PMR, it is the present intention of SOC that;

- i. The business of PMR will be otherwise continued in substantially the same manner as it is presently being conducted;
- ii. No other major changes will be made to the business of PMR;
- iii. There will not be any other redeployment of the fixed assets of PMR; and
- iv. The present employee of PMR will be employed by SOC.

## **2 PROFILE OF PRECIOUS METAL RESOURCES LIMITED**

### **2.1 Overview**

**2.1.1** PMR is a junior mining company listed on the ASX, exploring for gold in NSW. It was admitted to the official list of the ASX on 2 December 2011 and quoted on the ASX on 6 December 2011, after raising \$2m (before costs) through an initial public offering.

**2.1.2** PMR has 4 tenements in Halls Peak, 80 km south-west of Armidale, NSW and 1 tenement near Tarago, east of Canberra, NSW. One of these tenements has expired in January 2012 but we are advised that renewal is pending. PMR is implementing exploration work programmes to prove resources as soon as possible. Full details of the tenements and the activities of PMR are set out in the Target's Statement.

### **2.2 Capital Structure and Shareholders**

**2.2.1** PMR currently has 85,000,000 ordinary shares on issue, of which 71,250,000 are subject to escrow arrangements for a period of 24 months from the date of official listing.

**2.2.2** Raffles Capital Limited is the largest shareholder, holding 51,250,000 (60.3% of issued shares) which are subject to the escrow arrangements. Raffles Capital also holds an indirect interest of 17.9% in SOC, through its investment in Hudson Resources Limited (**HRS**) and Hudson Investment Group Limited (**HGL**).

**2.2.3** The second largest shareholder is Code Nominees Pty. Limited, with 5,000,000 shares, also subject to the escrow arrangements.



**2.2.4** PMR also has 3,600,000 options outstanding at the date of the Target's Statement. These options are all exercisable at 30 cents. The Takeover offer from SOC does not include the options, which will lapse unless they are exercised prior to the closing date of the offer. As the exercise price of 30 cents is currently higher than the market price of PMR as traded on the ASX (22 cents) on 30 July 2012, it is unlikely that any of these options will be exercised prior to the closing date of the takeover offer.

### 2.3 Current Activities

**2.3.1** On 29 March 2012 PMR announced to the ASX that they had entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co, ("**SUGEC**") of Nanjing, China, under which SUGEC would contribute \$2m toward exploration on EL 7679, before 31 March 2014 at which time SUGEC will be entitled to a 30% interest in the tenement.

### 2.4 Financial Performance

**2.4.1** The financial performance of PMR for the financial years ended 31 December 2010 and 31 December 2011 is set out in the table below and has been sourced from PMR's audited financial statements for the year ended 31 December 2011.

Precious Metal Resources Limited and Controlled Entities ACN 145 105 148

#### STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Revenue	4	8,490	-	8,490	-
		<u>8,490</u>	<u>-</u>	<u>8,490</u>	<u>-</u>
Administrative and exploration expenses		(401,479)	(7,923)	(363,161)	(1,655)
Finance costs		(392)	-	(348)	-
Share based payment expenses	5	(97,246)	-	(97,246)	-
(Loss)/Profit before income tax		<u>(490,627)</u>	<u>(7,923)</u>	<u>(452,265)</u>	<u>(1,655)</u>
Income tax expense	6(a)	-	-	-	-
(Loss)/Profit after income tax		<u>(490,627)</u>	<u>(7,923)</u>	<u>(452,265)</u>	<u>(1,655)</u>
Other Comprehensive Income					
Other comprehensive income for the year net of tax		-	-	-	-
<b>Total comprehensive (loss)/income attributable to members of the consolidated entity</b>		<u><b>(490,627)</b></u>	<u><b>(7,923)</b></u>	<u><b>(452,265)</b></u>	<u><b>(1,655)</b></u>
		Cents	Cents		
Basic earnings/(loss) per share	20	<b>(0.75)</b>	-		
Diluted earnings/(loss) per share	20	<b>(0.68)</b>	-		

## 2.5 Financial Position

2.5.1 The financial position of PMR as at 31 December 2010 and 31 December 2011 is shown in the table below. The information has been sourced from PMR's audited financial statements for the year ended 31 December 2011.

<b>Precious Metal Resources Limited and Controlled Entities</b>		<b>ACN 145 105 148</b>			
<b>STATEMENT OF FINANCIAL POSITION</b>					
AS AT 31 DECEMBER 2011					
	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	7	59,786	-	59,786	-
Trade and other receivables	8	1,782,343	20,000	1,762,343	-
<b>Total current assets</b>		<b>1,842,129</b>	<b>20,000</b>	<b>1,822,129</b>	<b>-</b>
<b>Non-current assets</b>					
Trade and other receivables	8	638,000	-	902,780	-
Mining tenements	9	200,250	200,250	-	-
Financial assets	10	-	-	100	100
Deferred tax assets	6(e)	-	-	-	-
<b>Total non-current assets</b>		<b>838,250</b>	<b>200,250</b>	<b>902,880</b>	<b>100</b>
<b>Total assets</b>		<b>2,680,379</b>	<b>220,250</b>	<b>2,725,009</b>	<b>100</b>
<b>Current liabilities</b>					
Trade and other payables	11	7,897	226,923	7,897	505
Employee benefits provision	12	4,687	-	4,687	-
<b>Total current liabilities</b>		<b>12,584</b>	<b>226,923</b>	<b>12,584</b>	<b>505</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	6(f)	-	-	-	-
Employee benefits provision	12	1,391	-	1,391	-
<b>Total non-current liabilities</b>		<b>1,391</b>	<b>-</b>	<b>1,391</b>	<b>-</b>
<b>Total liabilities</b>		<b>13,975</b>	<b>226,923</b>	<b>13,975</b>	<b>505</b>
<b>Net assets/(Deficiency in net assets)</b>		<b>2,666,404</b>	<b>(8,673)</b>	<b>2,711,034</b>	<b>(405)</b>
<b>Equity</b>					
Issued capital	13	2,985,422	1,250	2,985,422	1,250
Reserves		179,532	-	179,532	-
Accumulated losses		(498,550)	(7,923)	(453,920)	(1,655)
<b>Total equity/(Deficiency in total equity)</b>		<b>2,666,404</b>	<b>(8,673)</b>	<b>2,711,034</b>	<b>(405)</b>

Net assets per share \$0.03. -

### **3 PROFILE OF SOVEREIGN GOLD COMPANY LIMITED**

#### **3.1 Overview**

**3.1.1** SOC is a junior mining company listed on the ASX, exploring for gold and other precious metals in NSW and Malaysia. It was admitted to the official list of the ASX on 29 November 2010 and quoted on the ASX on 3 December 2010

**3.1.2** SOC is exploring large Intrusion-Related Gold Systems (“**IRGS**”) at the Rocky River-Uralla Goldfield in New South Wales, a 2,400 square kilometre site, located 21 km southwest of Armidale.

**3.1.3** SOC is also exploring for gold in the Eastern and Central Gold Belts of Peninsular, Malaysia.

**3.1.4** Full details of these tenements and the activities of SOC are available in the Bidder’s Statement.

#### **3.2 Capital Structure and Shareholders**

**3.2.1** SOC currently has 77,000,000 ordinary shares on issue, of which 44,875,000 are subject to escrow arrangements for a period of 24 months from the date of official listing, and are not available to be traded until on or after 3 December 2013.

**3.2.2** Hudson Resources Limited is the largest shareholder, holding 40,000,000 (51.95% of issued shares), of which all are subject to the escrow arrangements. Raffles Capital Limited, which holds 9.5% of the shares in HRS and 8.8% indirectly through HGL, also holds 60.3% of the issued shares in PMR and 2.1% of the shares in SOC.

**3.2.3** The second largest shareholder is Mr Li Ren with 6,000,000 shares, none of which are subject to the escrow arrangements.

**3.2.4** SOC also has 7,250,000 options outstanding at the date of the Bidder’s Statement. These options are all exercisable at 30 cents and expiring 29 November 2013. As the exercise price of 30 cents is currently higher than the market price of SOC as traded on the ASX (27.5 cents) on 30 July 2012, it is unlikely that any of these options will be exercised prior to the closing date of the takeover offer. The considerations following in relation to the percentage shareholdings post the takeover offer are based on no such options in fact having been exercised.

#### **3.3 Current Activities**

**3.3.1** On 28 March 2012 SOC announced to the ASX that they had entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co, (“**SUGEC**”) of Nanjing, China, under which SUGEC would contribute \$4m toward exploration on two tenements before 31 March 2014 at which time SUGEC will be entitled to a 30% interest in the respective tenements.

### 3.4 Financial Performance

3.4.1 The financial performance of SOC for the financial years ended 31 December 2010 and 31 December 2011 is set out in the table below and has been sourced from SOC's audited financial statements for the year ended 31 December 2011.

Sovereign Gold Company Limited and Controlled Entities

ACN 145 184 667

#### STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2011

Corresponding Period: for the 5 Months Ended 31 December 2010

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Revenue</b>	4	<b>184,501</b>	10,215	<b>184,501</b>	10,215
		<b>184,501</b>	10,215	<b>184,501</b>	10,215
Exploration expenses		(1,225,537)	(255,765)	(789,718)	(213,756)
Finance costs		(6,320)	(266)	(6,320)	(266)
Share based payment expenses	5	-	(212,130)	-	(212,130)
<b>(Loss)/Profit before tax</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Income tax expense	6(a)	-	-	-	-
<b>(Loss)/Profit before tax</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Other Comprehensive Income					
Other comprehensive income for the year net of tax		-	-	-	-
<b>Total Comprehensive Income attributable to members of the Parent Entity</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Basic earnings/(loss) per share	22	<b>(1.42)</b>	(2.50)		
Diluted earnings/(loss) per share	22	<b>(1.28)</b>	(1.71)		

### 3.5 Financial Position

**3.5.1** The financial position of SOC as at 31 December 2010 and 31 December 2011 is shown in the table below. The information has been sourced from SOC's audited financial statements for the year ended 31 December 2011.

Sovereign Gold Company Limited and Controlled Entities ACN 145 184 667

#### STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	7	1,413,956	2,842,776	1,413,956	2,842,776
Trade and other receivables	8	761,477	362,994	661,477	332,994
Other current assets	9	99,000	-	99,000	-
<b>Total current assets</b>		<b>2,274,433</b>	<b>3,205,770</b>	<b>2,174,433</b>	<b>3,175,770</b>
<b>Non-current assets</b>					
Trade and other receivables	8	-	-	2,534,233	242,009
Mining tenements	10	1,956,726	170,000	-	-
Financial assets	11	-	-	671	250
Plant and equipment	12	39,333	3,134	39,333	3,134
Deferred tax assets	6(e)	-	-	-	-
<b>Total non-current assets</b>		<b>1,996,059</b>	<b>173,134</b>	<b>2,574,237</b>	<b>245,393</b>
<b>Total Assets</b>		<b>4,270,492</b>	<b>3,378,904</b>	<b>4,748,670</b>	<b>3,421,163</b>
<b>Current liabilities</b>					
Trade and other payables	13	51,523	128,776	51,523	128,776
Employee benefits provision	14	-	-	-	-
<b>Total current liabilities</b>		<b>51,523</b>	<b>128,776</b>	<b>51,523</b>	<b>128,776</b>
<b>Non-current liabilities</b>					
Trade and other payable	13	-	-	100	-
Deferred tax liabilities	6(f)	-	-	-	-
Employee benefits provision	14	-	-	-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>
<b>Total liabilities</b>		<b>51,523</b>	<b>128,776</b>	<b>51,623</b>	<b>128,776</b>
<b>Net assets</b>		<b>4,218,969</b>	<b>3,250,128</b>	<b>4,697,047</b>	<b>3,292,387</b>
<b>Equity</b>					
Issued capital	15	5,382,756	3,366,559	5,382,756	3,366,559
Reserves		341,515	341,515	341,765	341,765
Accumulated losses		(1,505,302)	(457,946)	(1,027,474)	(415,937)
<b>Total equity</b>		<b>4,218,969</b>	<b>3,250,128</b>	<b>4,697,047</b>	<b>3,292,387</b>

Net assets per share \$0.055

## **4 OVERVIEW OF THE PROPOSED MERGED ENTITY**

### **4.1 Introduction**

**4.1.1** There are 3 possible outcomes in relation to the Takeover Offer from SOC, as follows;

- That the number of shares in PMR which are offered to SOC under the Takeover Offer are less than 80% of the total issued shares in PMR, in which case the Takeover Offer will not proceed;
- That the number of shares in PMR offered to SOC under the Takeover Offer will be between 80% but less than 90%, in which case SOC will end up with a relevant interest in the shares in PMR equal to that %; or
- That the number of shares in PMR which are offered to SOC under the Takeover Offer are at least 90%, in which case SOC will move to compulsorily acquire the remaining shares and will then have 100% relevant interest in all the shares in PMR.

**4.1.2** In Section 1.4 we set out a summary of the intentions of SOC in relation to the merged entity in the case of either the 2<sup>nd</sup> or 3<sup>rd</sup> outcome.

### **4.2 Directors**

**4.2.1** The directors of each company are currently as follows;

<b>SOC</b>	<b>PMR</b>
John S Dawkins Non-executive Chairman	John Foley Non-executive Chairman
Michael Leu – CEO and Chief Geologist	Peter Kennewell CEO and Executive Director
Peter Meers – Non Executive Director	Bruce Dennis Non-executive Director
Rado Jacob Rebek – Non-executive Director	Michael Leu Non-executive Director
	Peter Meers Non-executive Director

**4.2.2** The above table shows that the two companies already have two common directors.

**4.2.3** SOC has indicated that it intends to place two nominees on the Board of PMR should it obtain between 80 & 90% of the shares, but it has also advised that it has not yet identified who those directors would be.

### **4.3 Capital structure and impact on the Shareholders**

**4.3.1** In the table below we have summarised the top 5 shareholders of SOC and PMR, and their % interest in the shares, assuming either the minimum 80% acceptance level, or 100% acceptance level following acceptance of at least 90% followed by compulsory acquisition. In preparing this table we assumed that all 5 major shareholders in PMR will accept the Takeover offer. According to the Target’s Statement, each Director intends to accept the Offer in respect of all PMR Shares controlled by them. This would mean that if the minimum 80% acceptance level is achieved, the acceptance level would be at least 82.14%.

Major Shareholders	PMR			SOC		
	Current	100%	80%	Current	100%	80%
Raffles Capital	60.29%			2.08%	31.09%	34.13%
Hudson Resources				51.95%	26.06%	28.61%
Michael Leu	2.94%			6.33%	4.64%	5.09%
Code Nominees Mata	3.56%			4.57%	4.07%	4.46%
Li Ren				7.79%	3.91%	4.29%
Russell Lay				6.26%	3.14%	3.45%
Code Nominees Pty Ltd	5.88%				2.93%	3.22%
Bruce Dennis + Boyle	5.88%				2.93%	3.22%
Geng Du Lou				5.19%	2.60%	2.86%
Antonius Setiawan	3.59%				1.79%	1.96%
Other Directors	0.00%				0.00%	0.00%
SOC	0%	100%	82.14%			
Others			17.86%			
<b>TOTAL</b>	<b>82.14%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>84.17%</b>	<b>83.16%</b>	<b>91.28%</b>

- PMR currently has one shareholder with relevant interest of 60.29% in its shares
- SOC currently has one shareholder with a relevant interest of 51.95% in its shares
- Assuming the Takeover Offer is successful to either the 80% or 100% level, SOC will have two substantial holders, Raffles Capital and Hudson Resources, but neither with a controlling interest

#### 4.4 Pro Forma Financial Information

The table below has been prepared on the basis that 100% of the shares in PMR are acquired by SOC.

	PMR	SOC	Combined	
	31-Dec-11	31-Dec-11	Pro forma 100% takeover	Source
	\$ 000	\$ 000		
Cash and Equivalents	60	1,414	1,474	Dec 2011 Annual Reports
Loan at Call	1,507		1,507	Dec 2011 Annual Reports
Other Tangible Assets	1,113	2,856	3,969	Dec 2011 Annual Reports
Less: Liabilities	-14	-51	-65	Dec 2011 Annual Reports
Plus: Goodwill/PPA values			18,371	Dec 2011 Annual Reports
Net Tangible Assets (NTA)	2,666	4,219	25,256	
Intangibles	0	0	0	
Net Assets	2,666	4,219	25,256	
Market Capitalisation	18,700	21,175		Bloomberg
Enterprise Value	18,640	19,760		Bloomberg
Price:Book	7.01	5.02		Bloomberg
NTA - Cents per share	3.1	5.5		
Cash - Cents per share	0.1	1.8		
Cash + Loan at Call - Cents per share	1.8	1.8		
<b>Share Price - Cents</b>				
At 27/7/2012	22.0	27.5		
Consideration for PMR Shares			21,038	
Ordinary Shares new Issue	9 for 10 PMR		76,500	
Ordinary Shares on Issue	85,000	77,000	153,500	Dec 2011 Annual Reports
Ordinary Shares in Escrow	71,250	49,875	49,875	Dec 2011 Annual Reports
Options new Issue		0		Dec 2011 Annual Reports
30 Cent Options on Issue	3,600	7,250	7,250	Dec 2011 Annual Reports

## 5 VALUATION APPROACH

### 5.1 Definition of market value

**5.1.1** In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Shareholders of PMR we have assessed the value of the 10 shares in PMR on a fair value basis and compared that to the value of the 9 shares in SOC being offered as consideration. Fair value is generally defined as:

*“The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm’s length”.*

### 5.2 Valuation Methodologies

**5.2.1** RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buybacks, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;



- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- Net assets basis as ongoing concern;
- Quoted price for listed securities, when there is a liquid and active market; and
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

**5.2.2** Further details on these methodologies are set out in Appendix 1 to this report. Each of these methodologies is appropriate in certain circumstances.

**5.2.3** RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

### **5.3 Selected Valuation Methods**

**5.3.1** Both PMR and SOC are junior mining companies listed on the ASX. Both companies are in the very early stages of exploration, with no clear indication of what resources, if any, will eventually be proven. For this reason it is not possible to use neither the discounted cash flow method nor the earnings methodologies to value the shares of PMR or of SOC.

**5.3.2** We are also not aware of any recent takeover offers for either PMR or SOC prior to this Takeover Offer.

**5.3.3** Therefore the two valuation methodologies which we will apply in considering the value of the shares in PMR and SOC are:

- Quoted prices for listed securities;
- Net Assets per share.

## **6 VALUATION BASED ON MARKET ACTIVITY**

### **6.1 Share Price and Liquidity Comparison – PMR and SOC**

In considering the market value of the listed securities we need to consider the current quoted price and historical weighted average prices. We also need to consider the depth of the market for the securities. If there are few trades, and at low volumes, it is not always a fair indication of the underlying market value of the securities. Similarly if there are factors which limit the marketability of the securities, the underlying market value may not be evident from the trading history.

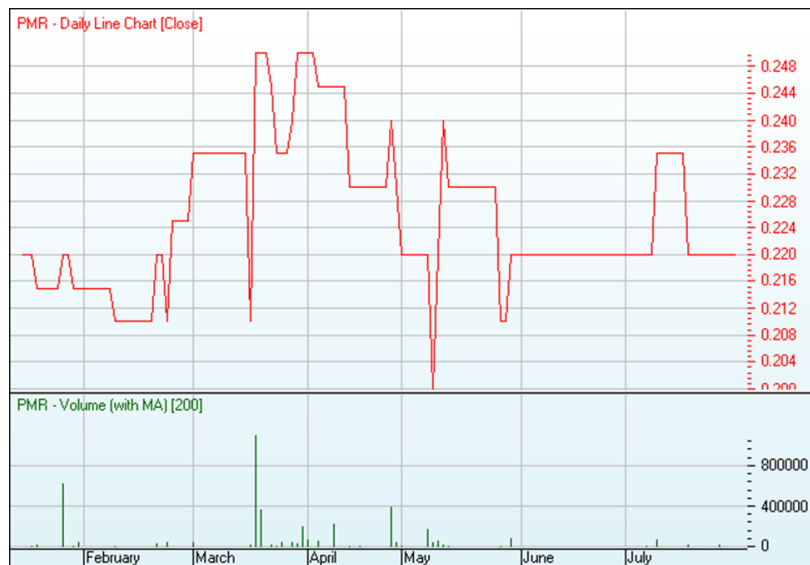
## 6.2 Historical Share Trading Activity

In considering the value of the company, we would normally place most reliance on the most recent Volume Weighted Average Price, but use the medium term trading history for context. For this purpose we have reproduced the 6-month trading charts of PMR and SOC below.

### 6.2.1 Share Prices History for PMR

#### 6 MONTH TRADING CHART: PMR, PRECIOUS METAL RESOURCES ORD

The chart of daily prices and volumes over 6 months for security **PMR**

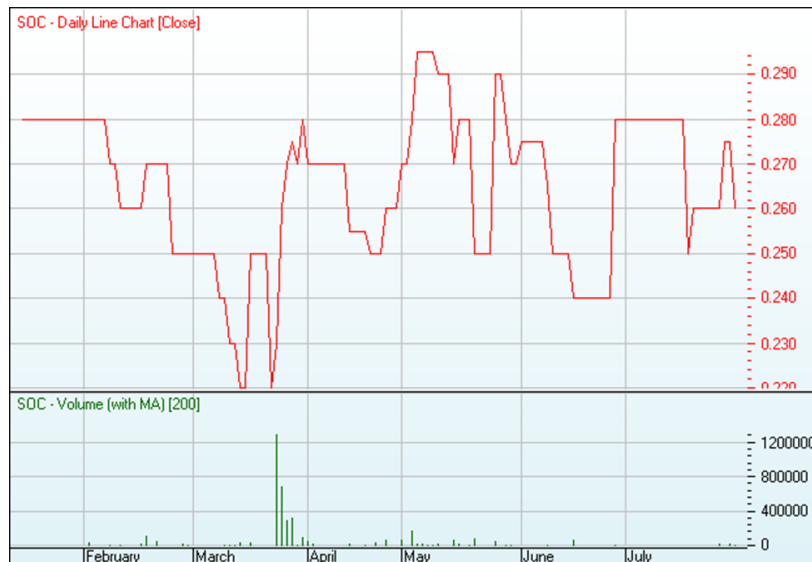


Source: ASX

### 6.2.2 Share Prices History for SOC

#### 6 MONTH TRADING CHART: SOC, SOVEREIGN GOLD COMPANY ORD

The chart of daily prices and volumes over 6 months for security **SOC**



Source: ASX

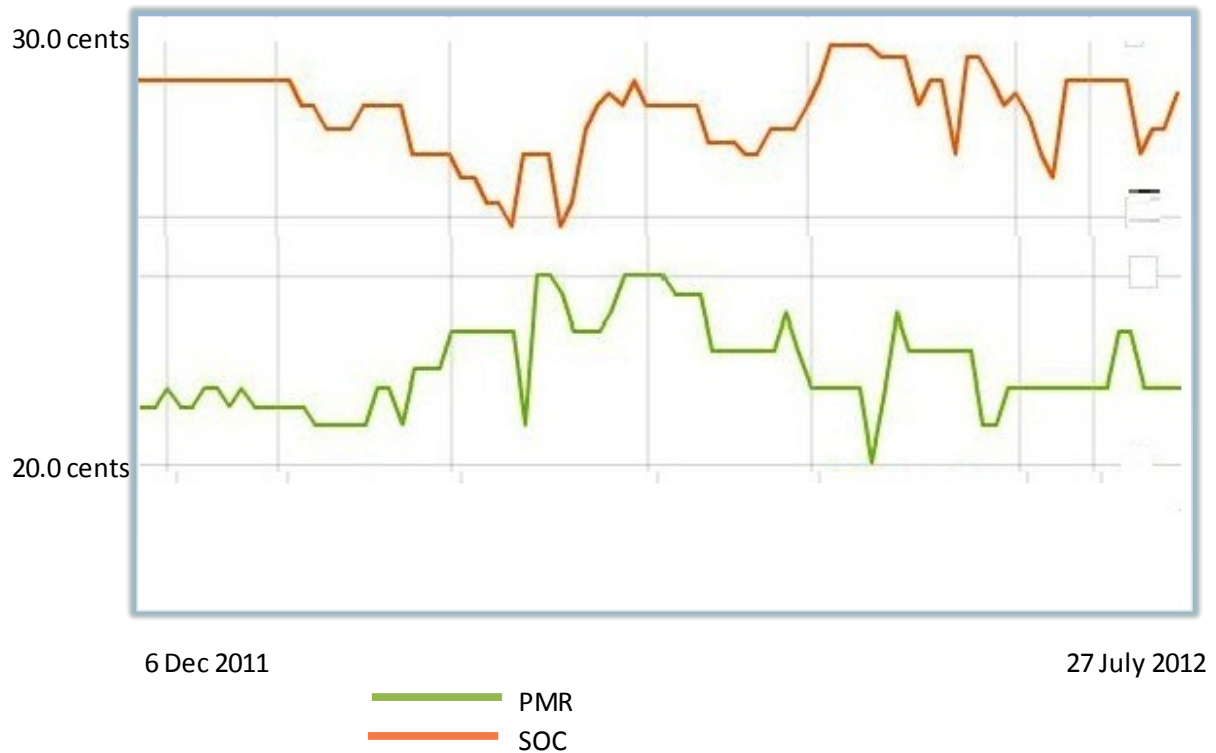
These two charts show that both stocks are now trading towards the middle of the range of market prices for the shares over the last 6 months.

### 6.2.3 Share Prices Comparison

SOC has consistently traded at a higher price than PMR since PMR's listing on 6 December 2011. The Ordinary Shares of PMR and SOC (listing date 3 December 2010) have both traded above their IPO subscription prices of 20 cents.

The graph below provides a graphical representation of comparative prices on the same scale for the two companies since the listing date of PMR.

**Comparative Price Movements Since  
PMR Listing Date**



**6.2.4 Volume – Share Trading History**

The 6-Month Trading Charts in Section 6.2.2 for PMR and SOC above also include Bar Charts showing the daily turnover volume for each company.

We have provided analyses of the volume of shares traded as a percentage of total ordinary shares on issue in the Average Volume Table and the Total Volume table below.

**AVERAGE VOLUME TABLE**

Average Volume	PMR	SOC	Source
Last 5 trading days	6,000	7,700	Bloomberg/ASX
Last 30 trading days	5,100	4,926	Bloomberg/ASX
No. of Days over 0.5% stock traded - last 6 months	5	4	ASX

At 27 July 2012

However, both companies have a large number of their issued securities which are restricted and thus not available to be traded.

The Total Volume Table below provides an analysis of the turnover in the 6 months from January to June 2012 and calculates the % of securities shares traded over both total issued and then only those available for trading:

#### TOTAL VOLUME TABLE

Total Volume Jan to Jun 2012	PMR *'000	SOC *'000	Source
Total Shares Traded in Period	4,849	4,287	ASX
Ordinary Share on Issue	85,000	77,000	ASX
- being:			
Restricted Securities - in Escrow	71,250	49,875	ASX
Shares Quoted on ASX	13,750	27,125	ASX
<b>% Traded: Ordinary Share on Issue</b>	<b>5.70%</b>	<b>5.57%</b>	
<b>% Traded: Shares Quoted</b>	<b>35.27%</b>	<b>15.80%</b>	

So of the shares available to be traded, 35% of PMR and 16% of SOC were in fact traded during this six month period.

#### 6.2.5 Volume Trading Comparison

Trading volume has been low and infrequent for each stock over the period of comparison. The trading volumes are also quite low compared to the number of ordinary shares issued by each company.

The Average Volume Table demonstrates the similarity between trading volumes for each of PMR, noting that PMR has about 10% more shares issued, but less Shares Quoted, due to the larger percentage of the shares which have been Restricted Securities over the periods analysed.

We also note that that both companies had few days on which trade volumes exceed 0.5% of the ordinary shares on issue.

However the majority of the ordinary shares in both PMR and SOC are Restricted Securities, and are held in escrow as required under Chapter 9 of the ASX Listing Rules. This places a limit on the supply of shares to the market. Since the parent companies of PMR and of SOC have both been locked in to their majority shareholding through the escrow arrangements, this has also reduced the attractiveness of both companies to any potential investor seeking to build a strategic stake in the company.

The total volume of shares, and the gross portion (5%-6%) of the Ordinary Shares on issue which have traded in the first half of 2012 are notable in this analysis for being low, but also for being of similar magnitude for PMR and SOC. PMR does appear to have greater liquidity in one regard, in that more than one-third of available shares have been traded over the first half of 2012, whereas the result for SOC is below one-sixth of the Shares Quoted on the ASX, not being Restricted Securities controlled by the ASX Listing Rules.

To the extent that we can use the market price as a reliable indicator, we have concluded from this analysis that the market data for PMR and SOC is comparable in that:

- Volumes traded are very similar in the total percentage turnover of Ordinary Shares which have traded over the period of analysis;
- There is a similar pattern of trade over the analysis period, with a similar number of major trades, and significant periods of inactivity.
- That the percentage of available shares traded after taking into account the Restricted Securities is much higher than the raw data.

#### 6.2.6 Post-Announcement Trading Activity

The following table sets out the last five days trading for PMR, which includes the day the Takeover Offer became public, and the most recent trading day prior to that announcement.

<b>PRECIOUS METAL RESOURCES</b>	<b>Last Sale \$</b>	<b>Volume *'000</b>
26-Jul-12	0.22	30
18-Jul-12	0.22	30
10-Jul-12	0.235	78
6-Jul-12	0.22	10
28-Jun-12	0.22	2

Source: ASX

The SOC table below sets out the last five days trading for SOC immediately following the day the Takeover Offer became public, and the most recent trading day prior to that announcement.

<b>SOVEREIGN GOLD COMPANY</b>	<b>Last Sale \$</b>	<b>Volume *'000</b>
27-Jul-12	0.275	2
26-Jul-12	0.26	37
19-Jul-12	0.26	4
18-Jul-12	0.25	6
12-Jul-12	0.28	1
3-Jul-12	0.28	1

Source: ASX

We have also considered the share trading activity of both entities since the takeover became public on 6 July 2012 when both companies announced that discussions were taking place.

Six Month Trading Charts for PMR and SOC at Section 6.2.2 show the Daily Line Chart for the share price, and a Bar Chart representing the daily trading volume over 6 months for PMR and SOC. The charts display no apparent change in the **range of share prices**, for the **3 weeks since the Takeover**

**Offer** became public, when compared to the **6 months historic price range** for each company. There has been **no increase in trading volume for either stock** in the final 3 weeks until 27 July 2012.

PMR initially increased to a share price close to its 3 month high price, but has settled back to the pre-announcement price on very low volume.

SOC has continued to trade in the same price range over the period since the discussions were announced on very low volume. The price dropped by 10% on 18 July before recovering to close to the pre-announcement price in the following week.

### **6.2.7 Reliability of Market Data**

In our opinion, despite the low volume of trade in both PMR and SOC, the trading history is sufficiently comparable for a reliable comparison to be made between the market price and liquidity in these two stocks, for the following reasons:

- Post-announcement trading activity - There has been no significant market reaction to the announcement of the takeover, with prices trading in a similar range for both stocks as in the prior three months, and with trading volume remaining low for both stocks in the period from 6 July until 27 July 2012;
- Share Prices Comparison – SOC has consistently traded at a higher price to PMR since PMR's listing on 6 December 2011;
- Volume – Share Trading History - Market volumes traded in PMR and SOC are both low, but trading volumes and the trading pattern for each company are similar over the period since the listing of PMR, particularly when eliminating the effect of the Restricted Securities.
- Comparable Size Companies – PMR and SOC are similar size companies with respect to Market Capitalisation, Ordinary Shares issued, shareholding structure, in their activities and type of assets held.

### **6.2.8 Value Comparison – 9 SOC Shares for 10 PMR Shares**

The Value Comparison Table below includes two sets of analyses which utilise high and low prices for the two stocks over periods of 5 trading days and 90 trading days prior to the announcement. When considering these high/low analyses, it is important to note:

- The dates on which the respective high and low prices occurred are not the same for each stock; and,
- The high and low points are not weighted for volume on the day or for the time period covered by any crest or trough in the curve (see, for example, graph in 6.2.3, which shows short periods at both extremities).

VALUE COMPARISON	PMR		SOC		Premium	
	Cents per Share	10 Shares \$	Cents per Share	9 Shares \$	Over PMR Price %	Source
At 27/7/2012	22.0	\$2.20	27.5	\$2.48	12.50%	Bloomberg/ASX
At 9/7/2012	22.0	\$2.20	28.0	\$2.52	14.55%	Bidder's Statement
At 90 trading days VWAP	21.5	\$2.15	26.7	\$2.40	11.77%	Bidder's Statement
At 90-Day low	20.0	\$2.00	22.0	\$1.98	-1.00%	Bidder's Statement
At 90-Day high	24.0	\$2.40	29.5	\$2.66	10.63%	Bidder's Statement
Last 5 trade days- low	22.0	\$2.20	25.0	\$2.25	2.27%	ASX
Last 5 trade days- high	23.5	\$2.35	28.0	\$2.52	7.23%	ASX

Using the data in the Value Comparison Table, we have calculated the Fair Value of 10 shares in PMR on the basis of market activity, in the range of \$2.15 to \$2.35. We then calculate that the value of the 9 shares in SOC, again from data in the table, is in the range of \$2.40 to \$2.55.

## 7. VALUATION BASED ON NET ASSETS

- 7.1** As a cross check to the value calculated in Section 6 on the basis of the price at which the securities in both companies are trading, we have also considered what the value of the shares in each company is a on a net asset basis.
- 7.2** The major assets of both companies are the tenements held which are carried in the accounts at the original cost of acquisition plus exploration costs incurred to date. It is not possible or reasonable to try and actually put a value on these assets when they are at such an early stage of development.
- 7.3** Based on the audited Statement of each company as at 31 December 2011, and contained in Sections 2 and 3, we have calculated the net assets per share for each company, as follows;

	PMR	SOC
Net Assets per Audited Statement of Financial Position as at 31 Dec 2011	\$2,666,404	\$4,218,969
Number of Issued Shares	85,000,000	77,000,000
Net Assets per Share	\$0.03	\$0.055

- 7.4** Based on the above net assets per share we have calculated that the value of 10 shares in PMR is \$0.30 whilst the value of the 9 shares in SOC being offered as consideration is \$0.49.
- 7.5** Whilst these values are considerably lower than the values obtained based on market activity, it demonstrates that there is an apparent difference in value of the parcel of shares in each company of \$0.19 – or 63%. The fact that the market recognises the potential



increase in value to be obtained by continuing to develop the tenements is evident in the difference between these figures and the value based on market prices.

## **8. OPINION AS TO WHETHER TAKEOVER OFFER IS FAIR**

**8.1** In Section 6 we have calculated that the fair value of the parcel of 10 shares in PMR, on the basis of the prices at which securities have been traded on the ASX is between \$2.15 to \$2.35 whilst the value of the 9 shares in SOC being offered as consideration is between \$2.40 and \$2.55.

**8.2** **As the value range of the parcel of shares in SOC being offered as consideration is greater than the valuation range for the shares in PMR to be acquired, we are of the opinion that the Takeover Offer is fair to the Shareholders in PMR.**

## **9. IS SOC OFFERRING A PREMIUM TO ACQUIRE CONTROL OF PMR**

**9.1** In a takeover offer it is normal for the offeror to include a premium of around 25% to 30% above the fair value of the securities the subject of the offer, in order to reflect the benefits that can be obtained by obtaining control of the target.

**9.2** However in cases where the transaction can be considered to effectively be the merger of two equal companies such a control premium would not normally be expected.

**9.3** We have considered whether this Takeover Offer really represents the merger of two equal companies, and despite many similarities between the two companies, we have formed the opinion that it is not the merger of two equal companies as SOC holds more tenements than PMR.

**9.4** Given that this is not the merger of two equal companies we would therefore expect SOC to be offering a premium above the assessed value of the shares in PMR in order to obtain control.

**9.5** Based of the valuation range calculated in Section 6, of \$2.15 to \$2.35 for the 10 shares in PMR as compared to \$2.40 to \$2.55 for the 9 shares in SOC, we have calculated that SOC are offering consideration greater than the fair value of the securities being acquired of between 9% and 11%.

**9.6** The control premium implied on this Takeover Offer of 9% to 11% is below the market average of around 25% to 30%. However given how close the transaction is to being considered a merger of two equals, this lower premium is in our opinion reasonable.

## **10. CONSIDERATION AS TO REASONABLENESS**

**10.1** In forming our opinion as to whether or not the transaction is reasonable to the Shareholders we have again had reference to RG111, which advises that a transaction is

reasonable if it is fair. In Section 8 we advised that in our opinion the Takeover Offer was Fair, and therefore can now also reach the opinion that the Takeover Offer is reasonable.

## **10.1 Other Factors as to Reasonableness**

### **10.1.1 Advantages**

- PMR shareholders who accept the offer will receive shares in SOC as consideration. SOC is company with a more diversified portfolio of projects and greater resources to manage the projects of PMR.
- Overall savings in administration and compliance costs should be achieved, resulting in greater return to all shareholders.
- The shares in PMR currently escrowed will be released and the shares in SOC acquired as a result will not be restricted. As such there will be considerably more securities available to be traded which may increase liquidity in the shares in SOC, as compared to the current liquidity of the shares in PMR.
- SOC may be in a better position to raise capital to fund ongoing exploration and development than PMR.

### **10.1.2 Disadvantages**

- PMR shareholders will hold a lesser % interest in the shares in SOC than they held in PMR.
- The Board of SOC will control the future direction of the business operations of the PMR assets.
- The release from escrow of the PMR shares to enable the takeover, and the fact that the SOC shares acquired will not be subject to restrictions, may result in substantial numbers of shares being offered for sale on the market, thus forcing prices down below the expected levels following completion.

## **10.2 Opinion as to Reasonableness**

**Based on the analysis above we are of the opinion that the Takeover Offer is Reasonable to the Shareholders of PMR.**

## **11. Other considerations**

### **Implications for Liquidity If Takeover Succeeds**

We note that PMR shares only traded on 44 of the 144 trading days after listing. We do not know, and are not in a position to forecast, either the volume of trade in PMR if the takeover is not successful, or the liquidity in the replacement SOC shares which current PMR shareholders would hold if the Takeover Offer is successful. However, we note the following factors which may have an impact on trading activity in the SOC shares if the takeover is successful, and which therefore may impact on the value of the consideration received by PMR shareholders:

1. Shares Quoted - When compared to current position for PMR (13.735 million Shares Quoted) and SOC (27.125 million Shares Quoted) the post-takeover SOC will have 153.5

million ordinary shares, but only 49.875 million Restricted Securities. The new SOC will therefore have 67.5% of shares available for trade until 3 December 2012, at which time 100% will become Shares Quoted on the ASX. This compares to only 35.2% for SOC currently not Restricted Securities, and 16.2% for PMR.

2. SOC immediate post-takeover will have a Share register which will be more open, with only two substantial shareholders and a wider spread of shareholders;
3. No parent company – no shareholder will have an absolute majority of the share in SOC immediately after a successful takeover. One effect will be to make the company more attractive as a takeover target;
4. Funding Core Activities – If funding is required for core activities, there will be one, larger company which can make a rights issue, with a broader spread of shareholders to approach for additional capital contributions.

## Appendix 1: Valuation Methodologies

In assessing the fairness of the Proposed Transaction we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:

### ***Market Based Methods***

Market based methods estimate the fair market value by considering the market value of a company’s securities or the market value of comparable companies. Market based methods include:

- The quoted price for listed securities; and
- Industry specific methods.

The recent quoted price for listed securities method provides evidence of the fair market value of a company’s securities where they are publicly traded in an informed and liquid market.

Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

### ***Income Based Methods***

Income based methods includes:

- Capitalisation of maintainable earnings; and
- Discounted cash flow.

The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings (“FME”) of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies. The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company’s cash flows at the end of the forecast period.

### ***Asset Based Methods***

Asset based methodologies estimate the fair market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method;
- liquidation of assets method; and
- net assets on a going concern basis.

The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.

The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.

The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

## Appendix 2: Sources of Information

In preparing this report we have relied upon the following principal sources of information:

1. Takeover Bid Implementation Agreement between Sovereign Gold Company Limited and Precious Metal Resources Limited dated 9 July 2012.
2. Bidder's Statement by Sovereign Gold Company Limited dated 20 July 2012
3. Target's Statement by Precious Metal Resources Limited dated 25 July 2012
4. Independent Expert Report by Alpha Securities Pty Ltd dated 15 July 2012.
5. ASIC email correspondence dated 27 July 2012 advising the directors of PMR that they had a number of concerns regarding the Independent Expert Report by Alpha Securities Pty Ltd dated 15 July 2012.
6. Annual Report of Precious Metal Resources Limited for the year ended 31 December 2011.
7. Prospectus dated 26 October 2011 in regard to the Initial Public Offering by Precious Metal Resources Limited.
8. Annual Reports of Raffles Capital Limited, the immediate parent company of Precious Metal Resources Limited, for the years ended 31 December 2010 and 31 December 2011.
9. Half Year management accounts of Precious Metal Resources Limited for the half year ended 30 June 2012.
10. Annual Reports of Hudson Resources Limited, the immediate parent company of Sovereign Gold Company Limited, for the years ended 31 December 2010 and 31 December 2011.
11. Annual Reports of Sovereign Gold Company Limited for the years ended 31 December 2010 and 31 December 2011.
12. Half Year management accounts of Sovereign Gold Company Limited for the half year ended 30 June 2012.
13. ASX announcement by Precious Metal Resources Limited concerning the Takeover Offer.
14. ASX announcement by Sovereign Gold Company Limited concerning the Takeover Offer.
15. ASX trading data for Precious Metal Resources Limited and Sovereign Gold Company Limited for, at minimum, the period since PMR's listing date.
16. Bloomberg research and data for Precious Metal Resources Limited and Sovereign Gold Company Limited for, at minimum, the period since PMR's listing date.