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9 March 2017

Company Announcements Office  
ASX Limited

**Takeover Bid for EZA Corporation Limited: Target's Statement**

In accordance with item 14 of subsection 633(1) of the *Corporations Act 2001* (Cth), attached is a copy of the Target's Statement of EZA Corporation Limited (ABN 59 151 155 734) (EZA) dated 9 March 2017 (Target's Statement) in response to the off-market cash takeover bid by Mercantile OFM Pty Ltd (Mercantile), a wholly owned subsidiary of Mercantile Investment Company Limited (ASX: MVT), for all the ordinary shares in EZA.

As detailed in the Target's Statement, the Directors of EZA recommend that shareholders **REJECT** the takeover bid by taking no action.

The Target's Statement has today been lodged with the Australian Securities & Investments Commission and sent to Mercantile.

Dispatch of the Target's Statement to EZA shareholders will be completed shortly.

For further information, please contact:

**Mark Jones**  
**Chairman**  
Mobile: +61 419 919 250

**EZA**  
CORPORATION LIMITED  
39 Clifton St  
Nedlands WA 6009  
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ABN: 59 151 155 734

9 March 2017

Dear EZA Shareholder

The board of EZA Corporation Limited (**EZA**) is pleased to enclose its Target Statement in relation to the opportunistic bid for your EZA shares that was recently announced by Mercantile Investment Company Limited (**Mercantile**).

Your board is working tirelessly on the assessment of suitable investment opportunities and is confident that an appropriate acquisition will be found so that your shares will re-list on the Australian Stock Exchange. The board has experience in this area.

The enclosed Target Statement illustrates the low cash burn in light of the broad due diligence activities that have been undertaken since the sale of the ATM Business.

The board views Mercantile's bid as opportunistic and could transfer any potential upside in EZA's share price from you to Mercantile. The board recommends that you **REJECT the offer, by ignoring Mercantile's offer to buy your shares.**

**Mark Jones**  
Chairman  
Mobile: +61 419 919 250



# TARGET'S STATEMENT

by

**EZA CORPORATION LIMITED**

(ACN 151 155 734)

in relation to the offer by

**MERCANTILE OFM PTY LIMITED**

(ACN 120 221 623)

A wholly owned subsidiary of  
Mercantile Investment Company Limited  
(ACN 121 415 576)

**To acquire your shares in EZA Corporation Limited**

**EZA's directors unanimously recommend**

**that you**

**REJECT**

**Mercantile OFM's Offer**

**THIS IS AN IMPORTANT DOCUMENT**

If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.



## KEY REASONS TO REJECT THE OFFER

Your Directors unanimously recommend that you **REJECT** Mercantile OFM's Offer by **TAKING NO ACTION**, given:

**The Offer insufficiently values the Company:**

- 1. The Offer Price is below the net tangible asset backing per Share of \$0.1512.**
- 2. The Independent Expert has valued EZA between \$0.1512 and \$0.1517 cents per Share, while the Offer is valued at \$0.1375 per Share**
- 3. The Offer Price provides no premium for control relative to the net tangible asset backing per Share**

**The Independent Expert has concluded the Offer is NEITHER FAIR NOR REASONABLE to Shareholders**

**The Offer is conditional**

**Funding for the Offer is uncertain. Accepting the Offer may expose you to credit risk associated with Mercantile OFM's ability to pay the Offer Price**

**Should the Offer become unconditional, accepting the all-cash Offer will deprive you of any opportunity to benefit from future exposure to potential EZA projects**

**Accepting the Offer precludes you from accepting a Superior Offer made by any third party (should one emerge during the Offer Period)**

**There may be tax implications if you accept the Offer**

**The full basis for the Directors' recommendation is provided in Section 1.4.**

## Letter from the Chairman of EZA Corporation

Dear Shareholder,

On 15 December 2016, Mercantile Investment Company Limited (**Mercantile**) announced an unsolicited, conditional, off-market cash takeover Offer for EZA. On 10 February 2017, Mercantile OFM Pty Ltd (**Mercantile OFM**), a wholly owned subsidiary of Mercantile, lodged its bidder's statement in respect of the Offer. This Target's Statement sets out your Directors' formal response to the Offer.

**The Directors unanimously recommend that you REJECT Mercantile OFM's inadequate and highly opportunistic Offer.**

Following the successful completion of the sale of the ATM business on 31 October 2014 your Board has taken a disciplined, diligent and patient approach to the evaluation of new investment opportunities. Considerable time and effort from the Board together with patience from Shareholders has placed the Company in this enviable position.

At 20 February 2017, the Company had a balance of \$9,332,600 in liquid assets comprising of \$9,045,000 of cash and \$42,600 of receivables. This represents a low net cash burn rate of approximately \$327,400 over two and half years, despite necessary corporate expenditure and the review and due diligence activities conducted on potential investment opportunities.

Since the disposal of the ATM business, your Board has evaluated more than 200 potential investment opportunities. In mid-2016, EZA shifted its focus towards the resource sector and, in particular, gold exploration assets. Given the improved sentiment towards resources in the market, the Directors consider that pursuit of this strategy is in the best interest of Shareholders. Currently, EZA is evaluating a number of properties displaying high prospectivity in an emerging jurisdiction which show promise. Discussions in respect of these properties are on-going but incomplete. Accordingly, there can be no assurance that this investment opportunity will eventuate. Accepting Mercantile OFM's Offer will deprive you of any opportunity to benefit from future exposure to potential EZA projects should the Offer become unconditional.

The Directors who have an interest in Shares currently intend to **REJECT** the Offer in respect of all their interests in Shares, given (amongst other things):

- The Offer Price of \$0.1375 insufficiently values EZA:
  - The Offer Price is below the net tangible asset backing per Share of \$0.1512.
  - The Independent Expert has valued EZA **between \$0.1512 and \$0.1517 cents per Share** while the Offer is valued at **\$0.1375 per Share**.
  - The Offer Price provides no premium for control relative to net tangible asset backing per Share.
- The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the shareholders of EZA.
- The Offer is conditional. If the Offer Conditions are not satisfied or waived by the end of the Offer Period, the Offer will lapse.
- Accepting the Offer precludes you from accepting a Superior Offer made by any third party (should one emerge during the Offer Period). Mercantile OFM has stated that the Offer Price is first and final and therefore cannot be increased if a Superior Offer were to emerge.
- There may be tax implications if you accept the Offer.

Shareholders can **REJECT** the Offer by **TAKING NO ACTION**. Further information, including the detailed reasons for your Directors' recommendation, is set out in this Target's Statement.

In order to consider the Offer in detail and guide the Directors in their recommendation, leading financial services firm BDO was engaged to prepare an Independent Expert's Report. The purpose of this report is to consider, in the Independent Expert's opinion, whether the Offer is fair and reasonable to Shareholders. A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1. The Directors encourage Shareholders to consider its contents carefully.

In assessing whether or not to accept the Offer, you should consider the information provided to you in this Target's Statement, the risks and potential rewards of remaining a Shareholder versus a cash offer, and your own personal circumstances. I encourage you to read this document carefully. If you have any questions in relation to your position as a Shareholder I encourage you to seek either financial or legal advice without delay.

Yours faithfully

Mark Jones  
Non-Executive Chairman, EZA Corporation Limited

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## Important Information

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This is an important document. If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

### **Nature of this document**

This Target's Statement is dated 9 March 2017 and is given under Section 635 of the *Corporations Act 2001* (Cth) (**Corporations Act**) by EZA Corporation Limited ACN 151 155 734 (**EZA**) in response to the Bidder's Statement lodged by Mercantile OFM Pty Limited ACN 120 221 623 (**Mercantile OFM**), a wholly owned subsidiary of Mercantile Investment Company ACN 121 415 576 (**Mercantile**) with the Australian Securities and Investments Commission (**ASIC**) on 10 February 2017 and served on EZA by Mercantile OFM on 10 February 2017.

### **ASIC and ASX disclaimer**

A copy of this Target's Statement has been lodged with ASIC and the Australian Securities Exchange (**ASX**). Neither ASIC or ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

### **No account of personal circumstances**

The recommendations of the Directors contained in this Target's Statement do not take into account the individual investment objectives, financial situation or particular needs of each Shareholder. You may wish to seek independent professional advice before making a decision as to whether to accept or reject the Offer.

### **Defined terms**

This Target's Statement uses a number of capitalised terms that are defined in Section 12 which also contains some of the rules of interpretation that apply to this Target's Statement.

### **Forward-looking statements**

This Target's Statement contains various forward-looking statements. Statements other than statements of historical fact may be forward-looking statements. Shareholders should note that such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of EZA. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

None of EZA, its officers, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any results, values, performances or achievements expressed or implied in any forward-looking statement, except to the extent required by law. Shareholders should not place undue reliance on any such statement.

The forward-looking statements in this Target's Statement on behalf of EZA only reflect views held as at the date of this Target's Statement.

### **Notice to foreign Shareholders**

The distribution of this Target's Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target's Statement should inform themselves of and observe those restrictions.

### **Information on Mercantile OFM and Mercantile in this Target's Statement**

Except where disclosed otherwise, the information on Mercantile OFM and Mercantile in this Target's Statement has been obtained from the Bidder's Statement and other publicly available information. EZA and its Directors are unable to verify the accuracy or completeness of the information on Mercantile.

Subject to the Corporations Act, neither EZA, nor its officers make any representation or warranty, express or implied, regarding such information and disclaim any responsibility in respect of that information.

### **Privacy statement**

EZA has collected your information from the EZA Share Register for the purpose of providing you with this Target's Statement. The type of information that EZA has collected about you includes your name, contact details and information on your shareholding in EZA. The Corporations Act requires the name and address of Shareholders to be held in a public register.

EZA has also provided or will provide personal information about its Shareholders to Mercantile OFM in accordance with the Corporations Act and the ASX Settlement Operating Rules.



## Key Points

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- Mercantile OFM is offering \$0.1375 in cash for each Share you hold.
- The Directors recommend that you **REJECT** the Offer for your Shares. Accordingly, you should **TAKE NO ACTION**.
- The Directors who have an interest in Shares currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 12.71% of all Shares outstanding.
- On 10 February 2017, Mercantile OFM had a Relevant Interest in 4.7% of Shares.
- Your choices are to:
  - **REJECT** the Offer and do nothing; or
  - accept the Offer and transfer your Shares to Mercantile for the Offer Price.
- If you do accept the Offer, you may not be able to participate in any Superior Offer or other offer that may emerge.
- The Offer will expire on 3 April 2017 (unless extended or withdrawn by Mercantile OFM beforehand).

## Important Dates

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|   |                         |
|---|-------------------------|
| Offer announced   | <b>15 December 2016</b> |
| Offer Period commences                                      | <b>1 March 2017</b>     |
| Date of this Target's Statement                             | <b>9 March 2017</b>     |
| Close of the Offer Period<br>(unless extended or withdrawn) | <b>3 April 2017</b>     |

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## Reasons Why You Should REJECT the Offer

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|  | Reference             |
|--|-----------------------|
| The Offer Price insufficiently values EZA.   | <b>Section 1.4(a)</b> |
| The Independent Expert has concluded that the Offer is <b>NEITHER FAIR NOR REASONABLE</b> to Shareholders.   | <b>Section 1.4(b)</b> |
| The Offer is subject to the Offer Conditions.  | <b>Section 1.4(c)</b> |
| If you accept the Offer, you may be exposed to credit risk associated with Mercantile OFM's ability to pay the Offer Price.                          | <b>Section 1.4(d)</b> |
| If you accept the Offer and the Offer is unconditional, you will not have the opportunity to benefit from future exposure to potential EZA projects. | <b>Section 1.4(e)</b> |
| If you accept the Offer, you may be unable to accept a Superior Offer if one emerges.  | <b>Section 1.4(f)</b> |
| There may be tax implications if you accept the Offer.   | <b>Section 1.4(g)</b> |

## 1. Recommendations of the Directors

### 1.1 Summary of the Offer

The consideration being offered by Mercantile OFM under the Offer is \$0.1375 in cash for each EZA Share you own.

The Offer is subject to the Offer Conditions. Refer to Section 5.3 for further information for further information on the Offer Conditions.

The Offer Price values the equity of EZA at approximately \$8,396,958.

### 1.2 Directors recommendation

The Directors unanimously recommend you **REJECT** Mercantile OFM's Offer for your Shares.

In making this recommendation, each Director has considered the merits of the Offer and weighed up the factors for and against acceptance.

When making your decision, you should:

- (a) read the Bidder's Statement in its entirety;
- (b) read this Target's Statement in its entirety, in particular the risks of holding Shares, as set out in Section 8;
- (c) consider that the Offer gives you the opportunity to receive cash for your Shares at a premium to the trading prices of Shares prior to the Company's suspension on 7 December 2015; and
- (d) be aware of the consequences of becoming a minority Shareholder, as set out in Section 2.4.

The Directors' recommendation is given as at the date of this Target's Statement. The Directors reserve the right to change their recommendation should new circumstances arise or a Superior Offer emerge.

### 1.3 Opinion of Independent Expert

EZA engaged BDO to provide an independent expert's report in respect of the Offer.

The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to Shareholders because the cash consideration offered by Mercantile for each Share is below the Independent Expert's assessed value range for a Share.

A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1.

### 1.4 Key considerations for REJECTING the Offer

#### (a) The Offer Price insufficiently values EZA

- (i) The Offer Price of \$0.1375 is below the net tangible asset backing per Share of \$0.1512. At 20 February 2017, the Company had a balance of \$9,332,600 in liquid assets comprising of \$9,045,000 of cash, \$42,600 of receivables and 5,000,000 shares held in Emerald Resources NL.
- (ii) The Independent Expert has valued EZA between \$0.1512 and \$0.1517 cents per Share cents per Share, while the Offer is valued at \$0.1375 per Share. A breakdown by value of EZA is provided in the Independent Expert's Report (Annexure 1).
- (iii) The Offer Price provides no for control relative to EZA's net tangible asset backing per Share.

#### (b) The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to Shareholders

In order to consider the Offer in detail and guide the Directors in their recommendation, leading financial services firm BDO was engaged to prepare an Independent Expert's Report. The purpose of this report is to consider, in the Independent Expert's opinion, whether the Offer is fair and reasonable to Shareholders. A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1. The Directors encourage Shareholders to consider its contents carefully.

#### (c) The Offer is subject to the Offer Conditions

The Offer is subject to the Offer Conditions. If you accept the Offer when it is still subject to one or more of the Offer Conditions you will not receive the Offer Price until the earlier of:

- (i) the date one month after the date the Offer becomes or is declared unconditional; and

- (ii) 21 days after the end of the Offer Period (assuming the Offer becomes or is declared unconditional).

During this period, unless withdrawal rights are available, you will give up your right to sell or otherwise deal with your Shares while the Offer remains open.

If the Offer Conditions are not satisfied or waived by the end of the Offer Period, the Offer will lapse and all acceptances of the Offer will be void and of no effect.

**(d) Funding for the Offer is uncertain. If you accept the Offer, you may be exposed to credit risk**

Accepting the Offer may expose you to credit risk associated with Mercantile OFM's ability to pay the Offer Price. Mercantile OFM appears to have no assets or cash of its own and is dependent on funding from Mercantile to pay the Offer Price to accepting Shareholders. Mercantile is, in part, dependent on funding from Sir Ron Brierley, a director of Mercantile OFM and Mercantile. If Mercantile OFM does not pay you the Offer Price in accordance with the terms of the Offer, your only recourse is against Mercantile OFM in the first instance, not Mercantile.

Section 5.2 of the Bidder's Statement provides that 'Mercantile has an unconditional revolving facility available at call provided by Sir Ron Brierley for an amount of up to \$5 million. Mercantile may draw upon this facility for any shortfall. Based on a total cost of [\$400,000] if all EZA Shares are purchased and assuming costs associated with the Offer of \$50,000 the total amount which may be required under that facility is not expected to exceed [\$450,000]'. However, no details are provided as to:

- (i) the amount already drawn down by Mercantile or Mercantile OFM pursuant to the facility;
- (ii) whether the funds available under the facility are immediately available or subject to any conditions or limitation to drawdown;
- (iii) the interest rate, repayment or security terms attaching to the facility; or
- (iv) if the facility is subject to any termination conditions.

**(e) If you accept the Offer and the Offer becomes unconditional, you will not have the opportunity to benefit from future exposure to potential EZA projects**

The Board has extensively reviewed many projects and is constantly conducting due diligence on new opportunities. The Board is confident that an appropriate deal will be found for the Company and believes that persisting with this approach is in the best interests of all Shareholders.

Refer to Section 6.1 for further information on EZA and its evaluation of new projects.

**(f) If you accept the Offer, you may be unable to accept a Superior Offer if one emerges**

Accepting the all-cash Offer deprives you of any opportunity to benefit from future exposure to EZA's business and precludes you from accepting a Superior Offer from a third party (should one emerge during the Offer Period), unless withdrawal rights are available. As at the date of this Target's Statement, the Directors are not aware of a proposal by anyone to make a Superior Offer.

The Offer Price offered by Mercantile OFM under the Offer is first and final and will not be increased, even if a Superior Offer were to emerge.

**(g) There may be tax implications for you if you accept the Offer**

No capital gains scrip-for-scrip rollover relief is available under Mercantile OFM's cash Offer.

If you are an Australian resident for tax purposes, you may stand to make a capital gain by accepting the Offer and depending on your personal circumstances, you may be required to pay tax (in cash) on any gains.

Refer to section 7 of the Bidder's Statement and Section 10.1 for an overview of the tax consequences for accepting the Offer.

## **1.5 Rejection by Directors**

As at the date of this Target's Statement, Directors Mark Jones and Douglas Rose have an interest in Shares currently and intend to reject the Offer in respect of their Shares. Collectively, Messrs Jones and Rose hold approximately 12.71% of all Shares outstanding.

The Directors' intention to reject the Offer in respect of their Shares is given as at the date of this Target's Statement. The Directors reserve the right to change their intention should new circumstances arise or a Superior Offer emerge.

## **1.6 Further developments**

Should there be any developments during the Offer Period (for example, the emergence of a Superior Offer from another bidder) which would alter the Directors' recommendations in relation to the Offer, you will be notified through an ASX announcement and/or a supplementary Target's Statement.

## 2. Important information for Shareholders to consider

### 2.1 Information about EZA

Following the sale of the Company's ATM business on 31 October 2014 and the subsequent finalisation of the sale adjustments in April 2015, EZA continues to assess multiple investment opportunities, particularly in the resources sector. The Board is confident that it will be able to acquire a suitable project that will have large potential for growth.

At 20 February 2017, the Company had a balance of \$9,332,600 in liquid assets comprising of \$9,045,000 of cash, \$42,600 of receivables and 5,000,000 shares held in Emerald Resources NL.

EZA has consistently reduced corporate expenditure in the last two years with the aim of carrying minimum overheads to preserve cash assets to pursue new opportunities.

Refer to Section 6 for further information on EZA.

### 2.2 Information about Mercantile OFM

Mercantile OFM is a wholly owned subsidiary of ASX listed Mercantile. For the avoidance of doubt, Mercantile's ACN is 121 415 576, not 120 221 623 as provided in section 10 of the Bidder's Statement.

Section 7 of this Target's Statement and section 2 of the Bidder's Statement contains information about Mercantile OFM and Mercantile.

### 2.3 Mercantile OFM's funding of Offer

The funding of the Offer is uncertain and accepting the Offer may expose you to credit risk associated with Mercantile OFM's ability to pay the Offer Price. Section 7.4 of this Target's Statement and section 5 of the Bidder's Statement contains details of the arrangements that Mercantile OFM has made in relation to the funding of the cash consideration payable under the Offer.

### 2.4 Minority ownership consequences

The Offer is subject to the Offer Conditions. If Mercantile OFM does not acquire all of the Shares, and Mercantile is not able to compulsorily acquire the rest of the Shares under the Corporations Act, but acquires the majority of the Shares (i.e. more than 50% of Shares), there may be a number of possible implications for Shareholders, including:

- (a) Mercantile OFM may be in a position to cast the majority of votes at a general meeting of EZA. This will enable Mercantile OFM to control the composition of EZA's board of directors and senior management, determine EZA's business plans and dividend policy as well as to control the strategic direction of EZA;
- (b) Mercantile may be able to implement its current intention to use EZA as an investment entity;
- (c) if the Shares are re-instated to trading on the ASX, it is unlikely that the Share price will contain any takeover premium;
- (d) the liquidity of Shares may be lower than at present;
- (e) if the number of Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, or under certain other circumstances, Mercantile OFM may seek to have EZA removed from the official list of the ASX. If this occurs, Shares will not be able to be bought or sold on the ASX; and
- (f) if Mercantile OFM acquires 75% or more of the Shares it may be able to pass special resolutions at meetings of Shareholders. This may enable Mercantile OFM to, among other things, change EZA's constitution.

If Mercantile OFM acquires 90% or more of the Shares it may be able to proceed to compulsory acquisition, wherein Shareholders who do not accept the Offer will still be entitled to receive the Offer Price for each EZA Share they hold. However, as a result of the need to complete the compulsory acquisition procedures set out in the Corporations Act, there is likely to be a delay of up to six weeks in the provision of that consideration, and therefore payment to Shareholders. Refer to Section 5.11 for further information.

As at the date of this Target's Statement, each Director who has an interest in Shares currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 12.71% of all Shares outstanding. On this basis, Mercantile OFM will not, during or at the end of the Offer Period, be able to acquire a Relevant Interest in at least 90% of the Shares.

Mercantile OFM's intentions in relation to EZA are detailed in section 4 of the Bidder's Statement. For the avoidance of doubt, the Board considers that the heading of section 4.6 of the Bidder's Statement should read "Mercantile OFM's intentions upon acquisition of less than 50% of EZA Shares" not "Mercantile OFM's intentions upon acquisition of at least 50% of EZA Shares". EZA notes that contrary to section 4.3 of the Bidder's Statement, Mr Doug Rose is an employee of EZA.

## **2.5 Dividend issues for Shareholders**

EZA has not paid a dividend to Shareholders since listing on the ASX. The Directors consider it unlikely that EZA will pay dividends in the 2017 or 2018 financial years.

## **2.6 Other alternatives to the Offer**

As at the date of this Target's Statement, no other takeover offers (other than Mercantile OFM's Offer) have been made to acquire your Shares.

## **2.7 Considerations in favour of accepting the Offer**

Mercantile OFM has set out its views on the considerations in favour of accepting the Offer in its Bidder's Statement.

The Directors encourage you to review the Bidder's Statement in its entirety.

## **2.8 Taxation Consequences of accepting the Offer**

The taxation consequences of accepting the Offer depends on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer is set out in Section 10.1 of this Target's Statement and section 7 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement and the Target's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

## **2.9 Company announcements**

EZA is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules. Copies of announcements lodged with ASX can be obtained from the ASX's website at [www.asx.com.au](http://www.asx.com.au) under the code "EZA" or from EZA's website at [www.ezacorp.com.au](http://www.ezacorp.com.au).

### 3. Frequently Asked Questions

This Section is not intended to address all issues relevant to you. This Section should be read together with all other parts of this Target's Statement.

| Question   | Answer  |
|--|---|
| <b>Who is the bidder?</b>                                    | <p>Mercantile OFM Pty Limited, a wholly owned subsidiary of ASX listed Mercantile Investment Company Limited (ASX: MVT).</p> <p>Refer to Section 7 of this Target's Statement and section 2 of the Bidder's Statement for information on the Mercantile OFM and Mercantile.</p>   |
| <b>What is the Offer for my Shares?</b>                      | <p>Mercantile OFM has made an off-market cash offer of \$0.1375 for each of your Shares.</p>  |
| <b>What is the Bidder's Statement?</b>                       | <p>The Bidder's Statement is the document prepared by Mercantile OFM which sets out the terms of the Offer. Mercantile OFM lodged its Bidder's Statement with ASIC on 10 February 2017. The Bidder's Statement was sent to each Shareholder registered as such at 7.00pm (AEDT) on 15 February 2017.</p>  |
| <b>What is the Target's Statement?</b>                       | <p>This Target's Statement is the Board's formal response to the Offer, as required by the Corporations Act. Accordingly, this document has been prepared by EZA and contains important information to help you decide whether to accept the Offer.</p>   |
| <b>What choices do I have as a Shareholder?</b>              | <p>As a Shareholder you can:</p> <ul style="list-style-type: none"> <li>• <b>REJECT</b> the Offer by doing nothing. The Directors recommend that you <b>REJECT</b> the Offer by doing nothing; or</li> <li>• accept the Offer.</li> </ul>   |
| <b>What are the Directors recommending?</b>                  | <p>Your Directors unanimously recommend that you <b>REJECT</b> the Offer.</p> <p>The reasons for the Directors' recommendation are set out in Section 1.4.</p>  |
| <b>What is the Independent Expert's conclusion?</b>          | <p>The Independent Expert has concluded that the Offer is <b>NEITHER FAIR NOR REASONABLE</b> to Shareholders because the cash consideration offered by Mercantile for each Share is below the Independent Expert's assessed value range for a Share.</p> <p>The Independent Expert's Report is set out in Annexure 1.</p>   |
| <b>How do I accept the Offer?</b>                            | <p>To accept the Offer, you should carefully follow the instructions in section 1.6 of the Bidder's Statement.</p> <p>Foreign Shareholders should be aware that if you accept the Offer you are not entitled to receive the Offer Price unless and until all requisite authorities or clearances have been obtained from the Reserve Bank of Australia and or the Australia Taxation Office. Mercantile OFM is under no obligation to spend any money, or undertake any action, in order to satisfy it of the eligibility of foreign Shareholders to receive the Offer Price.</p> |
| <b>What do the Directors intend to do with their Shares?</b> | <p>The Directors collectively hold approximately 12.71% of all Shares. The current intention of the Directors as at the date of this Target's Statement is to <b>REJECT</b> the Offer by taking no action.</p> <p>The Directors reserve the right to change their intention should new circumstances arise.</p>   |
| <b>Can the Offer Price be increased?</b>                     | <p>The Offer Price is first and final and Mercantile OFM will not increase the Offer Price.</p>   |

| Question   | Answer   |
|--|--|
| <b>What happens if a Superior Offer is made by a third party?</b>                          | <p>If a Superior Offer is made by a third party, Shareholders who have already accepted the Offer at such time will not receive the benefit of the Superior Proposal made by the third party.</p> <p>As at the date of this Target's Statement, the Directors are not aware of a proposal by any other party to make a Superior Offer.</p>   |
| <b>Is the Offer conditional?</b>   | <p>Yes. The Offer is subject to several conditions, being that none of the following occurring during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each a separate condition):</p> <ul style="list-style-type: none"> <li>• the Shares or any shares of the Controlled Entities of EZA are converted into a larger or smaller number of shares;</li> <li>• EZA or a subsidiary of EZA resolves to reduce its share capital in any way;</li> <li>• EZA or a subsidiary of EZA: <ul style="list-style-type: none"> <li>◦ enters into a buy-back agreement; or</li> <li>◦ resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;</li> </ul> </li> <li>• EZA or a subsidiary of EZA makes an issue of or grants an option to subscribe for any of its securities or agrees to make such an issue or grant such an option;</li> <li>• EZA or a subsidiary of EZA issues or agrees to issue convertible notes;</li> <li>• EZA or a subsidiary of EZA disposes or agrees to dispose of the whole or a substantial part of its business or property;</li> <li>• EZA or a subsidiary of EZA grants or agrees to grant an Encumbrance over the whole or substantial part of its business or property; or</li> <li>• an 'Insolvency Event' occurs with respect to EZA or a subsidiary of EZA (although 'Insolvency Event' is not defined in the Bidder's Statement).</li> </ul> |
| <b>What are the consequences of accepting the Offer now, while it remains conditional?</b> | <p>If you accept the Offer now, unless withdrawal rights are available (see below), you will give up your right to sell your Shares or otherwise deal with your Shares while the offer remains open.</p> <p>If Shares are re-instated to trading on the ASX while the Offer remains open and trade above the Offer Price you will have lost your ability to sell your Shares on ASX at that higher price.</p> <p>While the Offer remains conditional (i.e. subject to the Offer Conditions), you will not be paid the Offer Price despite accepting the Offer for your Shares.</p>   |
| <b>If I accept the Offer now, can I withdraw my acceptance?</b>                            | <p>You cannot withdraw or revoke your acceptance unless a withdrawal right arises under the Corporations Act. A withdrawal right will arise if, after you have accepted the Offer, Mercantile OFM varies the Offer in a way that postpones for more than one month the time that Mercantile OFM has to meet its obligations under the Offer.</p>   |
| <b>When will I receive the Offer Price if I accept the Offer?</b>                          | <p>You will not receive the Offer Price until after the Offer becomes unconditional.</p> <p>If the Offer becomes unconditional, you will be paid the Offer Price by the later of:</p> <ul style="list-style-type: none"> <li>• the date one month after the date you validly accept the Offer; and</li> <li>• one month after the date the Offer becomes or is declared unconditional,</li> </ul>  |



| Question   | Answer   |
|--|--|
|  | but in any event (assuming the Offer becomes or is declared unconditional), no later than the date 21 days after the end of the Offer Period.  |
| <b>What are the consequences of the Offer becoming unconditional?</b>    | If you accept the Offer and the Offer becomes unconditional, you will be entitled to receive the Offer Price in respect of your Shares. If the Offer becomes unconditional, Mercantile OFM will also be entitled to attend meetings of EZA and vote on behalf of those Shareholders who have accepted the Offer in order to, for example, defeat a resolution relating to a competing offer which may adversely affect the success of the competing offer.   |
| <b>Can Mercantile vary the Offer?</b>                                    | Yes. Mercantile OFM can vary the Offer. However, the Offer Price is first and final and will not be increased by Mercantile OFM. Refer to Section 5.6 for further details.   |
| <b>What happens if I do nothing?</b>                                     | You will remain a Shareholder.<br><br>If Mercantile OFM acquires 90% or more of Shares and the Offer becomes unconditional, Mercantile OFM intends to compulsorily acquire the remaining Shares. As at the date of this Target's Statement, each Director who has an interest in Shares currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 12.71% of all Shares outstanding. On this basis, Mercantile OFM will not, during or at the end of the Offer Period, be able to acquire a Relevant Interest in at least 90% of the Shares.  |
|  | If Mercantile OFM acquires between 50% and 90% of Shares and the Offer becomes unconditional, you will remain a minority shareholder and EZA will then be controlled by Mercantile OFM.<br><br>Refer to section 4 of the Bidder's Statement for details in relation to Mercantile OFM's intentions in relation to EZA.   |
| <b>Can I be forced to sell my Shares?</b>                                | You <u>cannot</u> be forced to sell your Shares unless Mercantile OFM acquires a Relevant Interest in at least 90% of all the Shares by the end of the Offer Period, and proceeds to compulsory acquisition of your Shares. If that happens, you will be provided the last Offer Price offered by Mercantile OFM for the Shares before the end of the Offer Period.<br><br>At the date of this Target's Statement, each Director who has an interest in Shares currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 12.71% of all Shares outstanding. On this basis, Mercantile OFM will not, during or at the end of the Offer Period, be able to acquire a Relevant Interest in at least 90% of the Shares. |
| <b>When does the Offer close?</b>  | The Offer is presently scheduled to close at 3 April 2017, but the Offer Period can be extended in certain circumstances in accordance with the Corporations Act. Refer to Section 5.6 for details on extending the Offer Period.  |
| <b>What happens if the Offer Conditions are not satisfied or waived?</b> | If the Offer Conditions are not satisfied or waived by the end the Third Business Day after the end of the Offer Period, the Offer will lapse. You will then be free to deal with your Shares even if you had accepted the Offer.  |
| <b>What are the tax implications of accepting the Offer?</b>             | A general outline of the tax implications for certain Australian resident Shareholders of accepting the Offer is set out in Section 10.1 of this Target's Statement and section 7 of the Bidder's Statement.<br><br>You should not rely on that outline as advice on your own affairs. It  |

| Question  | Answer   |
|---|--|
|   | does not deal with the position of particular Shareholders. You should seek your own personal, independent financial and taxation advice before making a decision as to whether to accept or reject the Offer for your Shares. |
| <b>Is there a number I can call if I have further queries in relation to the Offer?</b> | If you have further queries in relation to the Offer, you can contact EZA Chairman Mark Jones, on +61 419 919 250.   |

## 4. Your Choices as a Shareholder

### 4.1 Directors recommend that you **REJECT** the Offer.

In considering whether to accept the Offer, the Directors encourage you to read this Target's Statement and seek professional advice if you are unsure as to whether or not accepting the Offer is in your best interests, taking into account your individual circumstances.

The Bidder's Statement contains important information which you are urged to read carefully. EZA has not undertaken investigations to verify the accuracy or completeness of the information contained in the Bidder's Statement and neither EZA nor its Directors or advisers makes any representation as to the accuracy or completeness of information contained in the Bidder's Statement. To the fullest extent permitted by law, each of those parties disclaims liability to any person who acts in reliance of that information.

If you would like further information on EZA before making a decision about the Offer, you are encouraged to exercise your right under the Corporations Act to obtain from ASIC copies of all documents lodged by EZA with ASIC or ASX. You can also find information about EZA on the EZA website at [www.ezacorp.com.au](http://www.ezacorp.com.au).

During the Offer Period you have the following choices:

(a) **REJECT** the Offer

If you wish to retain your Shares, you need **TAKE NO ACTION** in relation to the Offer.

You should note that if Mercantile acquires 90% of Shares and the compulsory acquisition provisions of the Corporations Act are satisfied, it will be entitled to compulsorily acquire the Shares that it does not already own.

You should also note that if Mercantile acquires more than 50% but less than 90% of Shares, you will be exposed to the risks associated with being a minority Shareholder. In particular, Mercantile OFM notes that, subject to a review, its current intention may be to use EZA as an investment entity. Refer to Section 2.4 for further details.

(b) **ACCEPT** the Offer

If you wish to accept the Offer, you should follow the instructions in the Bidder's Statement.

You will receive \$0.1375 for each of your Shares.

You should consider the timing of any acceptance of the Offer in light of the fact that:

- (i) you will not receive the Offer Price unless the Offer Conditions are satisfied or waived; and
- (ii) accepting the Offer will preclude you from accepting any Superior Offer from a third party which may emerge. As at the date of this Target's Statement, the Directors are not aware of a proposal by any other party to make a Superior Offer.

Foreign Shareholders should be aware that if you accept the Offer you are not entitled to receive the Offer Price unless and until all requisite authorities or clearances have been obtained from the Reserve Bank of Australia and or the Australian Taxation Office. Mercantile OFM is under no obligation to spend any money, or undertake any action, in order to satisfy it of the eligibility of foreign Shareholders to receive the Offer Price.

## 5. Key features of the Offer

### 5.1 Offer Price

The price being offered by Mercantile OFM is \$0.1375 per Share.

### 5.2 Offer Period

The Offer will be open for acceptance from 1 March 2017 until 3 April 2017 unless extended or withdrawn.

The circumstances in which Mercantile may extend or withdraw the Offer are set out in Sections 5.6 and 5.7.

### 5.3 Offer Conditions

The Offer is subject to none of the following occurring during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each a separate condition):

- (a) the Shares or any shares of the Controlled Entities of EZA are converted into a larger or smaller number of shares;
- (b) EZA or a subsidiary of EZA resolves to reduce its share capital in any way;
- (c) EZA or a subsidiary of EZA:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;
- (d) EZA or a subsidiary of EZA makes an issue of or grants an option to subscribe for any of its securities or agrees to make such an issue or grant such an option;
- (e) EZA or a subsidiary of EZA issues or agrees to issue convertible notes;
- (f) EZA or a subsidiary of EZA disposes or agrees to dispose of the whole or a substantial part of its business or property;
- (g) EZA or a subsidiary of EZA grants or agrees to grant an Encumbrance over the whole or substantial part of its business or property; or
- (h) an 'Insolvency Event' occurs with respect to EZA or a subsidiary of EZA (although 'Insolvency Event' is not defined in the Bidder's Statement),

(the **Offer Conditions**).

As detailed in clause 7 of appendix A of the Bidder's Statement each item listed above is a separate condition. The Offer is not subject to only one condition, as described in the remainder of the Bidder's Statement.

If any of the Offer Conditions are not satisfied or have not been waived, Mercantile OFM will have an option as to whether to proceed with the Offer or allow the Offer to lapse. If the Offer lapses, all acceptances of the Offer will be void and of no effect.

### 5.4 Status of Offer Condition

Section 7.6 of the Bidder's Statement states that Mercantile OFM will give the notice on the status of the Offer Conditions to ASX and EZA on 27 March 2017 (subject to extension in accordance with the Corporations Act if the Offer Period is extended). Mercantile OFM is required to set out in this Notice of Status of Offer Condition:

- (a) whether the Offer is free of the Offer Conditions;
- (b) whether, so far as Mercantile OFM knows, the Offer Conditions have been fulfilled; and
- (c) Mercantile OFM's voting power in EZA at that time.

### 5.5 Lapse of Offer

The Offer will lapse if the Offer Conditions are not waived or satisfied by the end of the Offer Period. If the Offer lapses, all contracts resulting from acceptance of the Offer and all acceptances that have not yet resolved in binding contracts are void and you will retain ownership of your Shares.

## 5.6 Extension of Offer Period

Mercantile OFM may extend the Offer Period at any time before giving the Notice of Status of Conditions (refer to Section 5.4 above) while the Offer is subject to the Offer Conditions. However, if the Offer is unconditional, Mercantile may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period, Mercantile OFM's voting power in EZA increases to more than 50%. In this case the Offer Period will be automatically extended so that it ends 14 days after the increase in Mercantile OFM's voting power in EZA increases to more than 50%.

## 5.7 Withdrawal of Offer

Mercantile OFM may not withdraw the Offer if you have already accepted it. However, if the Offer Conditions have not been satisfied or waived at the end of the Offer Period, then all acceptances will be void. Before you accept the Offer, Mercantile OFM may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

## 5.8 Effect of acceptance

Once you have accepted the Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance will be binding on you. In addition, you will be unable to withdraw your acceptance of the Offer or otherwise dispose of your Shares, except as follows:

- (a) if, at the end of the third Business Day after the end of the Offer Period, an Offer Condition has not been satisfied or waived, the Offer will automatically terminate and your Shares will be returned to you; or
- (b) if the Offer is varied in accordance with the Corporations Act in a way that postpones for more than one month the time when Mercantile OFM has to meet its obligations under the Offer, and, at the time, the Offer is subject to one or more Offer Conditions, you may be able to withdraw your acceptance in accordance with section 650E of the Corporations Act.

The effect of acceptance of the Offer is further detailed in clause 5 of Appendix A of the Bidder's Statement.

## 5.9 When you will receive the Offer Price

If you accept the Offer and the Offer becomes unconditional, Mercantile OFM will pay you the Offer Price by the later of:

- (a) the date one month after the date you validly accept the Offer; and
- (b) one month after the date the Offer becomes or is declared unconditional,

but in any event (assuming the Offer becomes or is declared unconditional), no later than the date 21 days after the end of the Offer Period.

Refer to clause 6 of Appendix A of the Bidder's Statement for further details on when you will be paid the Offer Price by Mercantile OFM.

## 5.10 First and final Offer Price

The Offer Price is first and final, meaning that Mercantile OFM will not increase the Offer Price.

## 5.11 Compulsory acquisition

Mercantile OFM has indicated in section 4.4 of its Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any outstanding Shares. Mercantile OFM will be entitled to compulsorily acquire any Shares in respect of which it has not received an acceptance of its Offers on the same terms as the Offers if, during or at the end of the Offer Period, Mercantile OFM and its associates have a Relevant Interest in at least 90% (by number) of the Shares.

If this threshold is met, Mercantile OFM will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Shareholder to establish to the satisfaction of a Court that the terms of the relevant Offer do not represent "fair value" for their Shares. If compulsory acquisition occurs, Shareholders who have their Shares compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

As at the date of this Target's Statement, each Director who has an interest in Shares currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 12.71% of all Shares outstanding. On this basis, Mercantile OFM will not, during or at the end of the Offer Period, be able to acquire a Relevant Interest in at least 90% of the Shares.

It is possible that Mercantile OFM will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the Shares. Mercantile OFM would then have rights to compulsorily acquire Shares not owned by it within six months of becoming the holder of 90%. Mercantile OFM's price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

## 6. Information relating to EZA

### 6.1 Overview

EZA was listed on ASX on 7 October 2011 (ASX code: EZA). EZA was established to acquire the Ezeatm business, which specialised in the deployment of automatic teller machines (**ATM**) to small to medium size enterprises.

EZA sold the ATM business to DC Payments Inc. on 31 October 2014. Following the completion of final working adjustments in April 2015, EZA received final cash payment consideration, leaving it with approximately \$9.66 million in cash and no debt.

On 7 December 2015, EZA's securities were suspended from official quotation on ASX pending compliance with Chapter 12 of the Listing Rules.

Since the completion of the sale of the ATM business, the Board has reviewed over 200 investment opportunities falling across a number of sectors including technology, biotechnology, precious metals, base metals and operational industrial companies. In mid-2016 EZA shifted its focus towards the resources sector and, in particular, gold exploration assets.

Currently, EZA is evaluating a number of promising properties with high prospectivity in an emerging jurisdiction. Discussions in respect of these properties are on-going but, as at the date of this Target's Statement, remain incomplete. As such there can be no assurance that this investment opportunity will eventuate.

At 20 February 2017, the Company had a balance of \$9,332,600 in liquid assets comprising of \$9,045,000 of cash, \$42,600 of receivables and 5,000,000 shares held in Emerald Resources NL.

Should the Company be unable to secure a suitable asset by mid-2017, the Directors will put a proposal to Shareholders for a partial capital return, unless the Company is well advanced in the negotiations of an acquisition.

### 6.2 No material change in financial position

EZA's last published financial statements are for the half year ended 31 December 2016, as set out in its Interim Financial Report lodged with ASX on 28 February 2017. Except as disclosed in this Target's Statement and in any announcement made by EZA to ASX since 28 February 2017, the Directors are not aware of any material change to the financial position of EZA since 31 December 2016.

### 6.3 Capital Structure

As at the date of this Target's Statement EZA has 61,068,789 Shares on issue and a market capitalisation of approximately \$7,328,254.68, based on the closing price of Shares on 7 December 2015 (being the last day Shares traded on ASX prior to the Company's suspension).

## 6.4 Substantial Shareholders

The following persons have substantial shareholdings in EZA:

| Shareholder                                | Number of Shares | %      |
|--|------------------|--------|
| Oakajee Corporation Limited                | 11,000,000       | 18.012 |
| Asian Star Investments Limited             | 4,750,000        | 7.778  |
| Success Concept Investment Limited         | 4,500,000        | 7.369  |
| Dog Meat Pty Limited <DM A/C> <sup>1</sup> | 4,500,000        | 7.369  |

<sup>1</sup> Dog Meat Pty Ltd is controlled by Mark Jones.



## 7. Information relating to Mercantile OFM

### 7.1 Disclaimer

The information in this Section and all information concerning Mercantile OFM and Mercantile contained in other sections of this Target's Statement has been prepared by EZA using the information contained in the Bidder's Statement and publicly available information, and has not been independently verified by EZA. Accordingly, subject to the Corporations Act, EZA does not make any representation (express or implied) as to the accuracy or completeness of such information.

### 7.2 Corporate information

Mercantile OFM was incorporated on 16 June 2006. Mercantile OFM is a wholly owned subsidiary of Mercantile IAH. Mercantile IAH is a wholly owned subsidiary of Mercantile.

Mercantile was incorporated on 25 August 2006 and was listed on ASX on 5 April 2007 (ASX code: MVT). Mercantile invests in ASX listed investment opportunities.

### 7.3 Mercantile OFM and Mercantile directors

According to the Bidder's Statement, Mercantile OFM's directors are:

- (a) Ronald Brierley;
- (b) Gabriel Radzyninski; and
- (c) James Chirnside.

According to the Bidder's Statement, Mercantile's directors are:

- (a) Ronald Brierley;
- (b) Gabriel Radzyninski;
- (c) James Chirnside;
- (d) Ronald Langley;
- (e) Daniel Weiss; and
- (f) Gary Weiss (alternate director for Daniel Weiss).

### 7.4 Funding of the Offer Price

The Offer is a 100% cash offer. The maximum amount of cash that will be payable by Mercantile OFM if acceptances are received for all Shares on issue is approximately \$8,002,254.

Mercantile OFM has received a letter of commitment from Mercantile, under which Mercantile has committed to loan Mercantile OFM, on an unsecured basis, the funds necessary to pay the maximum available amount of consideration payable under the Offer and all associated transaction costs.

EZA notes that Mercantile OFM is not under any obligation to draw down funds pursuant to the letter of commitment, nor has Mercantile guaranteed the obligations of Mercantile OFM to pay the Offer Price to accepting Shareholders should the contracts resulting from their acceptances become unconditional.

EZA further notes that Mercantile OFM does not appear to have any assets or cash itself.

Accordingly, Shareholders who accept the Offer may be exposed to credit risk associated with Mercantile OFM's ability to pay the Offer Price.

Section 5.2 of the Bidder's Statement provides that 'Mercantile has an unconditional revolving facility available at call provided by Sir Ron Brierley for an amount of up to \$5 million. Mercantile may draw upon this facility for any shortfall. Based on a total cost of [\$400,000] if all EZA Shares are purchased and assuming costs associated with the Offer of \$50,000 the total amount which may be required under that facility is not expected to exceed [\$450,000]'. However, no details are provided as to:

- (a) the amount already drawn down by Mercantile or Mercantile OFM pursuant to the facility;
- (b) whether the funds available under the facility are immediately available or subject to any conditions or limitation to drawdown;

- (c) the interest rate, repayment or security terms attaching to the facility; or
- (d) if the facility is subject to any termination conditions.

Based on the lack of disclosure in the Bidder's Statement, EZA advises Shareholders to consider the possibility that Mercantile OFM may not be able to fulfil its obligations to pay the Offer Price to accepting Shareholders.

### **7.5 Further information about Mercantile OFM**

Section 3 of the Bidder's Statement provides further information relating to Mercantile OFM and Mercantile.

## 8. Risks

### 8.1 EZA's business risks

In considering the Offer, Shareholders should be aware of the risks related to EZA and its assets. EZA is subject to a number of investment risk factors which may affect the operating and financial performance of EZA and the value of Shares. Many of the risks are outside the control of EZA and the Directors, and there can be no certainty that EZA's objectives or anticipated outcomes will be achieved.

Investments in exploration and development companies are subject to certain risks. The following list is not intended to be an exhaustive exploration of the risk factors to which EZA is exposed.

### 8.2 Risks Specific to EZA

(a) Re-quotation and de-listing

Trading in Shares was suspended on 7 December 2015 due to non-compliance with ASX Listing Rule 12.1. Since the sale of the ATM business in October 2014, EZA has not had any business activities. Although the Board continues to actively seek and review a range of projects for possible investment, there is a risk that EZA may not be able to identify a suitable new investment opportunity that meets the requirements of the ASX for re-quotation of its Shares on ASX. Should this occur, the Shares continue not to be traded on the ASX until such time as those requirements can be met, if at all.

Subject to applicable law, Shares continue to be able to be traded off-market.

(b) Future capital requirements

Until the Company acquires a suitable project, the Company will mainly be generating income through interest received on cash term deposits. The Company may be unable to acquire a suitable project and generate income before it requires additional capital. An inability to obtain additional funding (if required) would have a material adverse effect on the Company.

At 20 February 2017, the Company had a balance of \$9,332,600 in liquid assets comprising of \$9,045,000 of cash, \$42,600 of receivables and 5,000,000 shares held in Emerald Resources NL.

### 8.3 General Securities Risks

(a) Economic risks

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates amongst others are outside EZA's control and have the potential to have an adverse impact on EZA and its operations.

(b) Share market conditions

Share market conditions may affect the value of EZA's quoted securities regardless of EZA's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither EZA nor the Directors warrant the future performance of EZA or any return on an investment in EZA.

(c) Regulatory Risks

Changes in relevant taxes, legal and administrative regimes, accounting practice and government policies in Australia may adversely affect the financial performance of EZA.

#### **8.4 Investment Speculative**

- (a) The above list of risk factors ought not to be taken as exhaustive of the risks faced by EZA or by investors in EZA. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of EZA and the value of the Shares.
- (b) You should be cognisant of all the above risks when making your decision whether to accept or reject the Offer. Accepting the Offer will mean that you will minimise your exposure to the above risks by receiving the Offer Price, whereas rejecting the Offer will see you remain exposed to all the above risks on an ongoing basis.

## 9. Information relating to the Directors and Senior Management

### 9.1 Directors and Senior Management

The names and details of the Directors are as follows.

(a) Mr Mark Jones – Non-Executive Chairman

Mark Jones has been the Non-Executive Chairman of EZA Corporation since the company floated on the Australian Stock Exchange on 5 October 2011. He was instrumental in the listing of the company and subsequent capital raisings. Mr Jones is a Non-Executive Director (Private Clients) of Patersons Securities Limited. As chairman of ASX listed Kore Potash Limited (formerly Elemental Minerals Limited), he was instrumental in the acquisition and exploration of the Sintoukola potash project in the Republic of Congo and during this time, ELM raised in excess of \$80 million from equity markets. Mark has a track record of financing mining projects in emerging jurisdictions for more than two decades. He is also the Managing Director of Oakajee Corporation Limited (OKJ:ASX).

(b) Mr Douglas Rose – Managing Director

Douglas Rose was appointed to the board of EZA Corporation on 1 March 2013 as a Non-Executive Director. He has been the Managing director of EZA Corporation since 1 July 2013 and oversaw the restructure and sale of the ATM business. Prior to his appointment as Managing Director, Mr Rose was a Private Client Adviser with Patersons Securities Limited. He holds a Bachelor of Commerce degree from Curtin University. Mr Rose is currently a Non-Executive Director of Oakajee Corporation Limited (OKJ:ASX).

(c) Mr Andrew Quin – Non-Executive Director

Andrew Quin was appointed to the board of EZA Corporation on 19 January 2016 as a Non-Executive Director. He is an economist with extensive experience in both the Australian and US stock markets. He has a unique international perspective and macro view on markets, global economics and investment strategy. Andrew is Research Strategy Coordinator for Patersons Securities Limited, focused on both macroeconomic strategy and stock investment selection. He holds a Masters of Science, Mineral Economics from Curtin University.

### 9.2 Interests of Directors in EZA

Messrs Mark Jones and Douglas Rose have decided to **REJECT** the Offer in respect of their Shares prior to the date of this Target's Statement. Mr Andrew Quin does not have an interest in Shares.

The table below shows the number of Shares held for or on behalf of each Director immediately prior to the date of this Target's Statement:

| Director     | Directors Interest in Shares prior to the Offer | Current Interest in Shares |
|--------------|---|----------------------------|
| Mark Jones   | 4,860,000                                       | 4,860,000                  |
| Douglas Rose | 2,904,669                                       | 2,904,669                  |
| Andrew Quin  | -   | -                          |

No director has acquired or disposed of any Shares within the four month period immediately prior to the date of this Target's Statement.

### 9.3 No benefits to Directors

No benefit (other than a benefit permitted under sections 200E or 200F of the Corporations Act) is proposed to be given to a Director (or anyone else) in connection with the Director's retirement as a Director (or executive) of EZA.

### 9.4 Other agreements or arrangements with Directors

There are no other agreements or arrangements made between a Director and any other person in connection with or conditional upon the outcome of the Offer.

### 9.5 Interests of Directors in Mercantile

No Director has a relevant interest in any securities of Mercantile OFM or Mercantile.

No Director acquired or disposed of any securities in Mercantile OFM or Mercantile within the four month period immediately prior to the date of this Target's Statement.

No Director has any interest in any contract entered into by Mercantile OFM or Mercantile.

## 10. Other Material Information

### 10.1 Taxation implications

The following is intended only as a general guide to the income tax position, and other indirect tax implications, under current Australian (federal and state/territory) tax law and administrative practice as at the date of this Target's Statement. Tax is a complex, and ever changing, area of law and the tax implications for you may differ from those detailed below, depending on your particular circumstances. It is unlikely two (2) shareholders' circumstances are the same. As these statements are of a general nature only, it is imperative that you obtain your own independent professional advice in respect of the tax implications of the Offer.

The following is an overview of the likely Australian tax implications as a consequence of the takeover bid for an Australian tax resident or non-Australian tax resident Shareholder who holds their Shares on capital account.

The following may not apply to certain Shareholders, such as if you are a dealer in shares, you hold Shares on revenue account or as trading stock, if you are an insurance company or a collective investment scheme, or if Division 230 of the *Income Tax Assessment Act 1997* (Cth) (**ITAA 1997**) applies to you and you have made an election to apply certain methods to calculating gains and losses. In addition, the following may not apply to you if you acquired your shares as a result of an employment or services arrangement. Such persons may be subject to special rules or any gain on the disposal of their Shares may be assessed as ordinary income.

The following may also not apply to non-Australian tax resident Shareholders. The Australian income tax implications for non-Australian resident Shareholders are complex and will depend upon their own specific circumstances. Non-Australian tax resident Shareholders may also have tax implications in their country of residence.

#### Income Tax

##### (a) Australian tax resident Shareholders

The transfer of Shares to Mercantile OFM pursuant to the Offer will trigger a capital gains tax (**CGT**) event for you. Australian tax resident Shareholders may make a capital gain or a capital loss. You may make a capital gain equal to the capital proceeds received (the cash consideration received from Mercantile OFM) less the cost base of your Shares. The cost base of your Shares is generally the cost of their acquisition plus certain other amounts associated with their acquisition and disposal such as brokerage or duty. However, there are provisions that may adjust the cost base of your shares.

If you are an individual, trustee of a trust or a complying superannuation entity, and you acquired your Shares at least 12 months prior to accepting the Offer, you may be entitled to concessional discount CGT treatment under Division 115 of the ITAA 1997 in respect of a capital gain. This will depend upon your individual circumstances.

If the reduced cost base of your Shares (noting there are provisions that may adjust the reduced cost base of your shares) is greater than the capital proceeds you received, you may realise a capital loss equal to the difference. A capital loss may be applied to reduce a capital gain in the same or a future tax year.

##### (b) Non-Australian tax resident Shareholders

Non-Australian tax resident Shareholders that hold Shares on capital account may only be subject to Australian CGT upon disposal of their Shares where the following conditions are met:

- (i) the non-Australian tax resident Shareholder, together with its associates, holds 10 per cent or more of EZA's issued shares at the time of the disposal or for any 12 month period in the 24 months prior to disposal; and
- (ii) more than 50 per cent of the market value of the assets of EZA is represented (directly or indirectly) by real property interests or mining rights in respect of certain resources in Australia.

If CGT applies, concessional CGT treatment under Division 115 of the ITAA 1997 is not available to non-Australian tax residents in relation to the disposal of Shares acquired after 8 May 2012. In respect to acquisitions on or before this date, the Shareholder will need to review whether they are entitled to a proportional concession under Division 115.

**Indirect Taxes****(a) Duty**

Given the respective transfer / stamp duty and landholder duty provisions of each of the Australian states and territories, no duty will be payable by the Shareholders on their sale of the EZA shares.

**(b) GST**

Given the current GST legislation, no GST should be payable by Shareholders in respect of the disposal of their shares in EZA, regardless of whether or not the Shareholder is registered for GST.

**10.2 Material litigation**

As at the date of this Target's Statement, EZA is not involved in any material litigation and is not aware of any pending material legal action to which it may be exposed.

**10.3 Consents**

The following persons have given and have not, before the date of issue of this Target's Statement withdrawn their consent to:

- (a) be named in this Target's Statement in the form and content in which they are named; and
- (b) the inclusion of other statements in this Target's Statement which are based on or referable to statements made in the reports or statements noted next to their names, or which are based on or referable to other statements made by those persons, in the form and context in which they appear:

| Name of Person                            | Capacity             | Reports or Statements  |
|---|----------------------|--|
| Mark Jones<br>Douglas Rose<br>Andrew Quin | Directors            | Statements made by, or statements based on the statements made by, the Directors |
| DLA Piper Australia                       | Legal advisor to EZA | N/A  |
| BDO Corporate Finance (WA) Pty Ltd        | Independent Expert   | Independent Expert's Report  |

Each of the persons named above:

- (a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom such statements are attributed to is not required for the inclusion of those statements in the Target's Statement.

Any Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to CO 13/521 may obtain a copy free by writing to EZA's Company Secretary.

Copies of all announcements by EZA may also be obtained from its website at [www.ezacorp.com.au](http://www.ezacorp.com.au) or from ASX's website [www.asx.com.au](http://www.asx.com.au) under the code "EZA".

Additionally, as permitted by ASIC Class Order 13/523, this Target's Statement may include or be accompanied by statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.



Pursuant to that Class Order, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

As permitted by ASIC Class Order 07/429, this Target's Statement also contains trading data obtained from IRESS, without its consent to the inclusion of such trading data.

### **10.4 No other material information**

There is no other information that Shareholders or their professional advisers would reasonably require to make an informed assessment on whether to accept the Offer, being information which:

- (a) is reasonable for Shareholders and their professional advisers to expect to find in this Target's Statement; and
- (b) is known to any of the Directors.

In deciding what information should be included in this Target's Statement, the Directors have had regard to, amongst other things, the matters which Shareholders (or their professional advisers) may reasonably be expected to know, including information contained in documents previously sent to Shareholders and information available from public sources such as the ASX, ASIC and EZA's website at [www.ezacorp.com.au](http://www.ezacorp.com.au).

## 11. Authorisation

This Target's Statement is dated 9 March 2017 and was approved pursuant to a unanimous resolution passed at a meeting of the Directors.

Signed for and on behalf of  
**EZA Corporation Limited**

A handwritten signature in blue ink, appearing to read 'Mark Jones', is written over a faint, light blue circular stamp or watermark.

**Mark Jones**  
**Chairman of the Board**

## 12. Glossary and Interpretation

### 12.1 Glossary

In this Target's Statement, unless a contrary intention appears, the following expressions have the following meanings:

**AEST** means Australian Eastern Standard Time.

**Announcement Date** means 15 December 2016.

**ASIC** means Australian Securities and Investment Commission.

**ASX** means ASX Limited ACN 008 624 691 trading as Australian Securities Exchange.

**ASX Listing Rules** or **Listing Rules** means the listing rules of ASX.

**ASX Settlement** means ASX Limited ABN 98 008 504 532.

**ASX Settlement Operating Rules** means the settlement rules of ASX Settlement.

**Bidder's Statement** means the bidder's statement of Mercantile OFM dated 10 February 2017 which was served on EZA on 10 February 2017.

**BDO** means BDO Corporate Finance (WA) Pty Ltd.

**Board** means the board of directors of EZA.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day.

**CGT** means capital gains tax.

**Competing Proposal** means any proposal or transaction, which, if completed, would mean a person (other than Mercantile OFM or any associate of Mercantile OFM) would:

- (a) acquire control of EZA, within the meaning of section 50AA of the Corporations Act, or a material part of EZA's business; or
- (b) otherwise acquire or merge (including by a reverse takeover bid or dual listed EZA structure) with EZA.

**Controlled Entity** has the meaning given to that term in the Corporations Act.

**Corporations Act** or **Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of EZA and **Directors** means all of the directors of EZA.

**Encumbrance** means an interest or power:

- (a) reserved in or over an interest in any asset including, without limitation, any retention of title; or
- (b) created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power,

by way of security for the payment of a debt, any other monetary obligation or the performance of any other obligation and includes, without limitation, any agreement to grant or create any of the above.

**EZA** or **Company** means EZA Corporation Limited ACN 1151 155 734.

**EZA Share Register** means the register of shareholders of EZA maintained by or on behalf of EZA in accordance with the Corporations Act.

**Independent Expert** means BDO Corporate Finance (WA) Pty Ltd.

**Independent Expert's Report** means the report of the Independent Expert set out in Annexure 1.

**ITAA 1997** means *Income Tax assessment Act 1997* (Cth).

**Mercantile** means Mercantile Investment Company Limited ACN 121 415 576.

**Mercantile IAH** means Mercantile IAH Pty Ltd ACN 136 640 769.

**Mercantile OFM** means Mercantile OFM Pty Ltd ACN 120 221 623.

**Offer** or **Mercantile OFM's Offer** means the offer dated 1 March 2017 made by Mercantile OFM to acquire all of the Shares on the terms set out in the Bidder's Statement.

**Offer Conditions** has the meaning given to that term in Section 5.3.

**Offer Period** means the period commencing on 1 March 2017 and ending on 3 April 2017 (unless extended or withdrawn) during which the Offer will remain open for acceptance.

**Offer Price** means the Offer of \$0.1375 in cash for each EZA Share.

**Relevant Interest** has the meaning given to that term in the Corporations Act.

**Section** means a section of this Target's Statement.

**Shareholder** means a person registered as a member of EZA.

**Shares** means fully paid ordinary shares in EZA.

**Superior Offer** means a Competing Proposal which EZA determines to be more favourable to Shareholders than Mercantile OFM's Offer, taking into account all terms and conditions of the Competing Proposal or variation to the Offer by Mercantile OFM.

**Target's Statement** means this target's statement, being the statement of EZA under Part 6.5 Division 3 of the Corporations Act.

**WST** means Australian western standard time.

## 12.2 Interpretation

Various defined terms are used in this Target's Statement. Unless the contrary intention appears, the context requires otherwise, or words are defined in Section 12.1, words and phrases in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

In this Target's Statement:

(a) headings are for convenience only and do not affect interpretation;

and unless the context indicates a contrary intention:

- (b) the expression "person" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;
- (c) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (d) a reference to any document (including this Target's Statement) is to that document as varied, novated, ratified or replaced from time to time;
- (e) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;
- (f) words importing the singular include the plural (and vice versa), and words indicating a gender include every other gender;
- (g) references to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Target's Statement, and a reference to this Target's Statement includes any schedule, exhibit or annexure to this Target's Statement;
- (h) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (i) the word "includes" in any form is not a word of limitation;
- (j) a reference to "\$" or "dollar" is to Australian currency; and
- (k) if any day appointed or specified by this Target's Statement for the payment of any money or doing of any thing falls on a day which is not a Business Day, the day so appointed or specified shall be deemed to be the next Business Day.



# **EZA CORPORATION LIMITED** **Independent Expert's Report**

9 March 2017



## Financial Services Guide

9 March 2017

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by EZA Corporation Limited ('EZA') to provide an independent expert's report on the off-market takeover bid by Mercantile OFM Limited ('Mercantile OFM') for all the issued shares in EZA at 13.75 cents per EZA share ('the Offer'). You will be provided with a copy of our report as a retail client because you are a shareholder of EZA.

### Financial Services Guide

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

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

**Fees, commissions and other benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$16,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report. We note that we have been appointed by MHM Metals Limited to prepare an independent expert's report on the takeover bid from Mercantile OFM.

**Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from EZA for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

**Referrals**

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

**Complaints resolution***Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

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

**Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

**Contact details**

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

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9 March 2017

The Directors  
EZA Corporation Limited  
39 Clifton Street  
Nedlands, WA 6009

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 15 December 2016, Mercantile Investment Company Limited (**'Mercantile'**), through its wholly owned subsidiary Mercantile OFM Pty Limited (**'Mercantile OFM'**) announced an unsolicited, off-market takeover offer for all the issued shares in EZA (**'EZA'** or **'the Company'**) at 13.75 cents per EZA share (**'the Offer'**). The Offer is not subject to a minimum acceptance condition.

Further details of the Offer are set out in section 4.

### 2. Summary and Opinion

#### 2.1 Purpose of the report

The directors of EZA have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Offer is fair and reasonable to the non associated shareholders of EZA (**'Shareholders'**).

Our Report is prepared pursuant to section 640 of the Corporations Act 2001 Cth (**'Corporations Act'** or **'the Act'**) and is to be included in the Target's Statement for EZA in order to assist the Shareholders in their decision whether to accept the Offer.

#### 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (**'ASIC'**) Regulatory Guide 111 'Content of Expert's Reports' (**'RG 111'**) and Regulatory Guide 112 'Independence of Experts' (**'RG 112'**).

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of this report. We have considered:

- how the value of an EZA share prior to the Offer on a control basis compares to the value of the Offer consideration;
- the likelihood of a superior alternative offer being available to EZA;

- other factors which we consider to be relevant to Shareholders in their assessment of the Offer; and
- the position of Shareholders should the Offer not be accepted.

### 2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Offer is neither fair nor reasonable to Shareholders.

As determined in section 10, the Offer is not fair. By accepting the Offer, Shareholders will forgo the potential available through any new project that may be acquired by the Company. Furthermore, the directors of EZA have stated in the Target's Statement that should the Company be unable to secure a suitable asset by mid-2017, they will put a proposal to Shareholders for a partial capital return, unless the Company is well advanced in the negotiations of an acquisition.

However, if a Shareholder requires cash immediately, to utilise for other investments and/or wants certainty in their return on an EZA share, the Offer may be reasonable for such Shareholders.

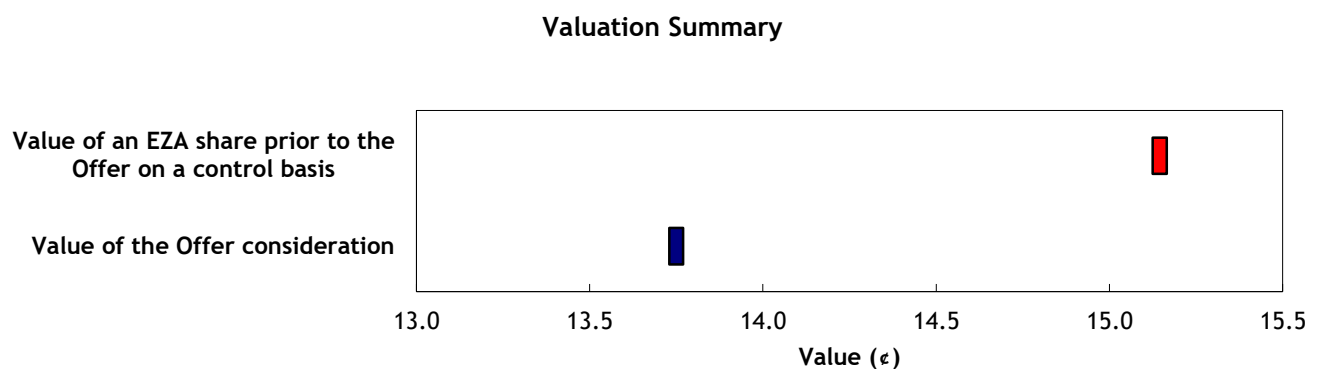
### 2.4 Fairness

In section 10 we determined that the Offer consideration compares to the value of an EZA share, as detailed below:

|   | Ref | Low value € | High value € |
|---|-----|-------------|--------------|
| Value of an EZA share prior to the Offer on a control basis | 9.3 | 15.12       | 15.17        |
| Value of the Offer consideration                            | 8.2 | 13.75       | 13.75        |

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the value of an EZA share prior to the Offer on a control basis is greater than the value of the Offer consideration per EZA share. Therefore, in the absence of any other relevant information, and a superior offer, we consider that the Offer is not fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in section 11 of this report, in terms of the following:

- advantages and disadvantages of the accepting the Offer;
- advantages and disadvantages of the rejecting the Offer; and
- other considerations, including alternative proposals.

In our opinion, the position of Shareholders if the Offer is accepted is less advantageous than the position if the Offer is rejected. Accordingly, in the absence of any other relevant information and/or a superior proposal, we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages of accepting the Offer considered are summarised below:

| ADVANTAGES AND DISADVANTAGES OF ACCEPTING THE OFFER |  |         |  |
|---|--|---------|--|
| Section   | Advantages   | Section | Disadvantages  |
| 11.1.1  | The Offer provides Shareholders with an opportunity to realise their investment with certainty | 11.2.1  | The Offer is not fair  |
| 11.1.2  | The Offer is at a premium to the Company's last traded price                                   | 11.2.2  | Shareholders will be unable to participate in the potential upside of prospective operations |
| 11.1.3  | The Offer is not subject to a minimum acceptance condition                                     | 11.2.3  | Shareholders may face potential tax implications   |

The respective advantages and disadvantages of rejecting the Offer considered are summarised below:

| ADVANTAGES AND DISADVANTAGES OF REJECTING THE OFFER |  |         |   |
|---|--|---------|---|
| Section   | Advantages   | Section | Disadvantages   |
| 11.3.1  | If the Company is unable to secure a suitable asset by mid-2017, the directors of EZA will put a proposal to Shareholders for a partial capital return | 11.4.1  | Shareholders who reject the Offer could become minority shareholders in a company in which Mercantile OFM would have a controlling interest |
|   |  | 11.4.2  | The Company has two years to re-comply with Chapter 12 of the ASX Listing Rules or face automatic removal from the official list            |

Other key matters we have considered include:

| Section | Description          |
|---------|----------------------|
| 11.3    | Alternative Proposal |

### 3. Scope of the Report

#### 3.1 Purpose of the Report

Mercantile OFM has prepared a Bidder's Statement in accordance with section 636 of the Act. Under section 633 Item 10 of the Act, EZA is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Act requires the Target's Statement to include an independent expert's report to shareholders if:

- The bidder's voting power in the target is 30% or more; or
- The bidder and the target have a common director or directors.

There is no requirement under ASX Listing Rules or the Act for EZA to engage an independent expert in relation to the Offer. However, notwithstanding the above, EZA has engaged BDO to prepare this independent expert's report, which is to be included in the Target's Statement for EZA to assist the Shareholders in their decision whether to accept the Offer.

#### 3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

#### 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that an Offer is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of an EZA share prior to the Offer on a control basis and the value of the Offer consideration per EZA share (fairness - see section 10 'Is the Offer Fair?'); and

- an investigation into other significant factors to which Shareholders might give consideration, prior to accepting the offer, after reference to the value derived above (reasonableness - see section 11 'Is the Offer Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

*'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

## 4. Outline of the Offer

On 15 December 2016, Mercantile OFM announced an unsolicited, off-market takeover offer for all the issued shares in EZA at 13.75 cents per EZA share, payable in cash. The Offer is not subject to a minimum acceptance condition. On 10 February 2017 Mercantile OFM issued an undated Bidder's Statement (the Bidder's Statement') setting out the complete terms of the Offer.

There is no requirement under ASX Listing Rules or the Act for EZA to engage an independent expert in relation to the Offer. However, EZA has engaged BDO to prepare this independent expert's report, which is to be included in the Target's Statement for EZA to assist the Shareholders in their decision whether to accept the Offer.

Amongst other things the Bidder's Statement sets out that:

- Mercantile OFM and its associates have a relevant interest in 2,870,575 shares in EZA representing approximately a 4.7% voting interest in EZA;
- If Mercantile OFM achieves sufficient acceptances such that it holds more than 90% of the EZA shares on issue it will proceed to compulsory acquisition;
- If Mercantile OFM achieves sufficient acceptances such that it holds more than 50% but less than 90% of the EZA shares on issue then Mercantile OFM proposes to seek to appoint a majority of Mercantile OFM nominees to the board of EZA and to remove EZA from the official list of the Australian Securities Exchange ('ASX').
- For those Shareholders that accept the Offer, the Offer consideration will be paid one month after the Shareholder validly accepts the Offer.
- Those Shareholders that do not accept the Offer will remain shareholders of EZA.

## 5. Profile of EZA

### 5.1 Background

EZA was incorporated in May 2011 and listed on the ASX in October 2011. The Company currently has no operations and is actively seeking new opportunities. Prior to the sale of its automated teller machine ('ATM') business in October 2014, EZA was focussed on the deployment of ATMs in small to medium sized businesses in Australia. Following the sale of its ATM business, the Company changed its name from Ezeatm Limited to EZA Corporation Limited and started to actively seek and assess new corporate opportunities that have large potential for growth. The Board has disclosed that it has reviewed a number of opportunities within the technology and biotechnology sectors since the disposal of the ATM business. In mid-2016, the Company shifted its focus towards the resources sectors, in particular gold exploration assets. EZA is applying a patient, focused and disciplined approach in evaluating such opportunities.

The current directors and senior management of EZA are:

- Mr Mark Jones, Non-Executive Director and Chairman;
- Mr Douglas Rose, Managing Director;
- Mr Andrew Quin, Non-Executive Director; and
- Ms Krystel Kirou, Company Secretary.

### 5.2 Recent corporate events

On 18 September 2014, EZA entered into a share and asset sale agreement with DirectCash Payments Inc. ('DirectCash'), whereby DirectCash agreed to acquire the Company's ATM business subject to shareholder approval. This share and asset sale was reflective of the Company's new strategic direction with the aim of unlocking business value and focusing on the assessment of advanced, high growth opportunities. Following shareholder approval, the Company subsequently sold its ATM business to DirectCash on 31 October 2014. The Company received total consideration of \$12.56 million, which was inclusive of \$10.79 million cash and \$1.76 million for the cancellation of shares.

As a result of the sale, the shares held in Ezeatm Services Pty Ltd, the Company's main operating subsidiary, and other ATM business assets and contracts of the Company were transferred to DC Australasia Pty Ltd, DirectCash's main operating subsidiary in Australia.

On 4 December 2015, it was announced that the Company would be suspended from official quotation as of close of business 7 December 2015, due to failure to demonstrate compliance with Chapter 12 of the ASX Listing Rules. As at the date of this Report, EZA remains suspended from official quotation of the ASX.

### 5.3 Historical Statement of Financial Position

| Statement of Financial Position  | Reviewed as at<br>31-Dec-16<br>\$'000 | Audited as at<br>30-Jun-16<br>\$'000 | Audited as at<br>30-Jun-15<br>\$'000 |
|----------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|
| <b>CURRENT ASSETS</b>            |                                       |                                      |                                      |
| Cash and cash equivalents        | 9,047                                 | 9,382                                | 9,661                                |
| Trade and other receivables      | 76                                    | 89                                   | 95                                   |
| Other financial assets           | 245                                   | 27                                   | 27                                   |
| Current tax assets               | -                                     | -                                    | 20                                   |
| <b>TOTAL CURRENT ASSETS</b>      | <b>9,368</b>                          | <b>9,498</b>                         | <b>9,804</b>                         |
| <b>NON-CURRENT ASSETS</b>        |                                       |                                      |                                      |
| Property, plant and equipment    | 4                                     | 5                                    | 7                                    |
| <b>TOTAL NON-CURRENT ASSETS</b>  | <b>4</b>                              | <b>5</b>                             | <b>7</b>                             |
| <b>TOTAL ASSETS</b>              | <b>9,371</b>                          | <b>9,503</b>                         | <b>9,811</b>                         |
| <b>CURRENT LIABILITIES</b>       |                                       |                                      |                                      |
| Trade and other payables         | 26                                    | 31                                   | 37                                   |
| Employee benefits                | 25                                    | 21                                   | 19                                   |
| <b>TOTAL CURRENT LIABILITIES</b> | <b>51</b>                             | <b>53</b>                            | <b>57</b>                            |
| <b>TOTAL LIABILITIES</b>         | <b>51</b>                             | <b>53</b>                            | <b>57</b>                            |
| <b>NET ASSETS</b>                | <b>9,320</b>                          | <b>9,450</b>                         | <b>9,755</b>                         |
| <b>EQUITY</b>                    |                                       |                                      |                                      |
| Contributed equity               | 16,406                                | 16,406                               | 16,406                               |
| Assets revaluation reserve       | (38)                                  | -                                    | -                                    |
| Accumulated losses               | (7,048)                               | (6,955)                              | (6,651)                              |
| <b>TOTAL EQUITY</b>              | <b>9,320</b>                          | <b>9,450</b>                         | <b>9,755</b>                         |

Source: EZA's audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half-year ended 31 December 2016

We note the following in relation to EZA's historical statement of financial position:

- Cash and cash equivalents of \$9.66 million at 30 June 2015 primarily related to proceeds of \$8.13 million the Company received for selling its ATM business during that financial year. The cash and cash equivalents balance has declined over the review period due to payments made to suppliers and employees, which have been offset by interest income.
- Other financial assets of \$0.25 million as at 31 December 2016 primarily relate to the Company's holding in Emerald Resources NL ('EMR').

## 5.4 Historical Statement of Profit or Loss and Other Comprehensive Income

| Statement of Profit or Loss and Other Comprehensive Income | Reviewed for<br>the half-year<br>ended<br>31-Dec-16<br>\$'000 | Audited for the<br>year ended<br>30-Jun-16<br>\$'000 | Audited for the<br>year ended<br>30-Jun-15<br>\$'000 |
|--|---|--|--|
| <b>Revenue</b>   |   |  |  |
| Revenue from continuing operations                         | -   | -  | 5,916  |
| Cost of sales  | -   | -  | (3,679)  |
| <b>Gross profit</b>  | -   | -  | <b>2,238</b>   |
| <b>Operating expenses</b>                                  |   |  |  |
| Employee benefits  | (127)   | (390)  | (1,062)  |
| Depreciation & amortisation                                | (1)   | (2)  | (1,154)  |
| Profit/(loss) from sale of listed investments              | 27  | 35   | -  |
| Other  | (119)   | (227)  | (1,254)  |
| <b>Results from operating activities</b>                   | <b>(220)</b>  | <b>(584)</b>   | <b>(1,233)</b>                                       |
| Profit from disposal of ATM business                       | -   | -  | 8,131  |
| Finance income   | 128   | 280  | 214  |
| Finance costs  | -   | -  | (56)   |
| <b>Profit/(loss) before income tax</b>                     | <b>(92)</b>   | <b>(304)</b>   | <b>7,056</b>   |
| Income tax (expense)/benefit                               | -   | -  | (42)   |
| <b>Net profit/(loss) for the year</b>                      | <b>(92)</b>   | <b>(304)</b>   | <b>7,014</b>   |
| <b>Other comprehensive income</b>                          | <b>(38)</b>   | <b>-</b>   | <b>-</b>   |
| <b>Total comprehensive income/(loss) for the year</b>      | <b>(130)</b>  | <b>(304)</b>   | <b>7,014</b>   |

Source: EZA's audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half-year ended 31 December 2016

We note the following in relation to EZA's historical statement of profit or loss and other comprehensive income:

- Revenue from continuing operations decreased from \$6.00 million for the year ended 30 June 2015 to nil for the year ended 30 June 2016. This was due to the sale of the Company's ATM business in October 2014 and the subsequent finalisation of sale adjustments in April 2015. The Company did not have any operating activities during the year ended 30 June 2016.
- Employee benefits of \$0.39 million for the year ended 30 June 2016 primarily comprised wages and salaries of \$0.35 million and contributions to defined contribution superannuation funds of \$0.03 million.
- Other operating expenses of \$0.23 million for the year ended 30 June 2016 primarily comprised travel costs of \$50,000, other costs of \$50,000 and contractors and consultants costs of \$40,000.
- Profit from disposal of ATM business of \$8.13 million for the year ended 30 June 2015 related to proceeds received from DirectCash in October 2014 in relation to the sale of the Company's ATM business.
- Finance income of \$0.13 million for the half-year ended 31 December 2016 comprised solely interest income.



## 5.5 Capital Structure

The share structure of EZA as at 13 February 2017 is outlined below:

|  | Number     |
|--|------------|
| Total ordinary shares on issue             | 61,068,789 |
| Top 20 shareholders                        | 47,349,615 |
| Top 20 shareholders - % of shares on issue | 77.53%     |

Source: Share registry information

The range of shares held in EZA as at 13 February 2017 is as follows:

| Range of Shares Held | Number of Ordinary Shareholders | Number of Ordinary Shares | Percentage of Issued Shares (%) |
|----------------------|---------------------------------|---------------------------|---------------------------------|
| 1 - 1,000            | 8                               | 361                       | 0.00%                           |
| 1,001 - 5,000        | 17                              | 56,800                    | 0.09%                           |
| 5,001 - 10,000       | 153                             | 1,504,398                 | 2.46%                           |
| 10,001 - 100,000     | 40                              | 2,711,654                 | 4.44%                           |
| 100,001 - and over   | 56                              | 56,795,576                | 93.00%                          |
| <b>TOTAL</b>         | <b>304</b>                      | <b>61,068,789</b>         | <b>100.00%</b>                  |

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 13 February 2017 are detailed below:

| Name                                  | Number of Ordinary Shares Held | Percentage of Issued Shares (%) |
|---------------------------------------|--------------------------------|---------------------------------|
| Oakajee Corporation Limited           | 11,000,000                     | 18.01%                          |
| Asian Star Investments Limited        | 4,750,000                      | 7.78%                           |
| Success Concept Investment Limited    | 4,500,000                      | 7.37%                           |
| Dog Meat Pty Limited                  | 4,500,000                      | 7.37%                           |
| Subtotal                              | 24,750,000                     | 40.53%                          |
| Others                                | 36,318,789                     | 59.47%                          |
| <b>Total ordinary shares on issue</b> | <b>61,068,789</b>              | <b>100.00%</b>                  |

Source: Share registry information

## 6. Profile of Mercantile

### 6.1 Background

Mercantile OFM is a wholly owned subsidiary of Mercantile, an investment company focussed on investing in listed securities and listed on the ASX itself in April 2007. Mercantile, formerly known as Equities Fund Limited, has its head office located in Sydney, New South Wales.

The current directors and senior management of Mercantile OFM and Mercantile are:

#### Mercantile OFM

- Sir Ron Brierley, Non-Executive Chairman;
- Mr Gabriel Radzynski, Non-Executive Director;
- Mr James Chirnside, Non-Executive Director;

## Mercantile

- Sir Ron Brierley, Non-Executive Chairman;
- Mr Gabriel Radzynski, Executive Director;
- Mr James Chirnside, Non-Executive Director;
- Mr Ronald Langley, Non-Executive Director;
- Mr Daniel Weiss, Non-Executive Director;
- Mr Mark Licciardo, Joint Company Secretary; and
- Mr Chris Lobb, Joint Company Secretary.

### 6.2 Recent corporate events

On 4 June 2015, Mercantile announced that it had made an off-market takeover offer through Mercantile OFM for all of the ordinary shares in ASX-listed Ask Funding Limited ('AKF') that Mercantile OFM did not own. The offer consideration totalling \$2.66 million was paid on 4 September 2015.

On 27 August 2015, Mercantile received a short term loan totalling \$3.00 million from Sir Ron Brierley to fund the purchase of various investments. Additional amounts up to \$7.00 million were also advanced by Sir Ron Brierley to Mercantile between December 2015 and March 2016. The loan and interest payable was re-paid in full before 30 June 2016.

On 22 December 2015, Mercantile announced that it had undertaken a placement to raise \$1.4 million New Zealand Dollars through the issue of 11,235,329 new fully paid ordinary shares from wholesale investors in New Zealand. This capital raising followed Mercantile's listing on the New Zealand Exchange Main Board on 6 July 2015.

On 11 August 2016, Mercantile announced two takeover offers for Richfield International Limited and Wellington Merchants Limited through its wholly owned subsidiaries Mercantile OFM and Mercantile NZ Limited, respectively. Both offers were funded using Mercantile's cash reserves and drawing down on the debt facility Mercantile had with Sir Ron Brierley.

On 15 December 2016, Mercantile announced that it had written to the board of MHM Metals Limited ('MHM') indicating that Mercantile OFM intends to make an off-market takeover bid for the shares in MHM. MHM subsequently released a response to the proposed takeover on 16 December 2016, outlining that it had received the unsolicited proposed off-market takeover offer and had reviewed and responded to Mercantile's correspondence. On 11 January 2017, MHM announced that the takeover bid was formalised after receiving the Bidder's Statement, which confirmed an off-market takeover offer for all the issued shares in MHM at \$0.04 per MHM share in cash. The offer from Mercantile OFM was not subject to a minimum acceptance condition.

### 6.3 Historical Statement of Financial Position

| Statement of Financial Position                          | Audited as at<br>30-Jun-16<br>A\$'000 | Audited as at<br>30-Jun-15<br>A\$'000 | Audited as at<br>30-Jun-14<br>A\$'000 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| <b>CURRENT ASSETS</b>                                    |                                       |                                       |                                       |
| Cash and cash equivalents                                | 7,934                                 | 6,118                                 | 1,129                                 |
| Trade and other receivables                              | 135                                   | 84                                    | 35                                    |
| Net loans and advances                                   | 3,599                                 | -                                     | -                                     |
| Financial assets at fair value through profit or loss    | 15,738                                | 3,278                                 | 4,866                                 |
| Other current assets                                     | 119                                   | 44                                    | 193                                   |
| <b>TOTAL CURRENT ASSETS</b>                              | <b>27,524</b>                         | <b>9,524</b>                          | <b>6,224</b>                          |
| <b>NON-CURRENT ASSETS</b>                                |                                       |                                       |                                       |
| Financial assets - available for sale                    | 40,664                                | 32,420                                | 34,450                                |
| Trade and other receivables                              | 624                                   | 714                                   | 872                                   |
| Property, plant and equipment                            | 1                                     | 3                                     | 6                                     |
| Deferred tax assets                                      | 230                                   | 244                                   | 36                                    |
| <b>TOTAL NON-CURRENT ASSETS</b>                          | <b>41,519</b>                         | <b>33,381</b>                         | <b>35,364</b>                         |
| <b>TOTAL ASSETS</b>                                      | <b>69,044</b>                         | <b>42,905</b>                         | <b>41,587</b>                         |
| <b>CURRENT LIABILITIES</b>                               |                                       |                                       |                                       |
| Trade and other payables                                 | 1,677                                 | 1,764                                 | 138                                   |
| Current tax liability                                    | 467                                   | 473                                   | -                                     |
| Borrowings   | -                                     | -                                     | 2,912                                 |
| <b>TOTAL CURRENT LIABILITIES</b>                         | <b>2,143</b>                          | <b>2,238</b>                          | <b>3,051</b>                          |
| <b>NON-CURRENT LIABILITIES</b>                           |                                       |                                       |                                       |
| Unsecured notes  | 15,108                                | -                                     | -                                     |
| Deferred tax liabilities                                 | 4,327                                 | 2,456                                 | 4,830                                 |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                     | <b>19,435</b>                         | <b>2,456</b>                          | <b>4,830</b>                          |
| <b>TOTAL LIABILITIES</b>                                 | <b>21,578</b>                         | <b>4,694</b>                          | <b>7,881</b>                          |
| <b>NET ASSETS</b>  | <b>47,466</b>                         | <b>38,211</b>                         | <b>33,706</b>                         |
| <b>EQUITY</b>  |                                       |                                       |                                       |
| Contributed equity                                       | 28,717                                | 27,404                                | 24,774                                |
| Reserves   | 22,712                                | 18,487                                | 16,561                                |
| Retained earnings  | (5,237)                               | (7,680)                               | (7,628)                               |
| <b>Total equity attributable to owners of the parent</b> | <b>46,191</b>                         | <b>38,211</b>                         | <b>33,706</b>                         |
| Non-controlling interest                                 | 1,275                                 | -                                     | -                                     |
| <b>TOTAL EQUITY</b>                                      | <b>47,466</b>                         | <b>38,211</b>                         | <b>33,706</b>                         |

Source: Mercantile's audited financial statements as at 30 June 2014, 30 June 2015 and 30 June 2016

We note the following in relation to Mercantile's historical statement of financial position:

- Cash and cash equivalents increased from \$6.12 million as at 30 June 2015 to \$7.93 million as at 30 June 2016. The increase was primarily attributable to an increase in money held in lawyers' trust account from nil as at 30 June 2015 to \$1.11 million as at 30 June 2016.
- Net loans and advances of \$3.60 million as at 30 June 2016 were acquired by Mercantile as part of the acquisition of AKF on 4 September 2015. Net loans and advances comprised family law, disbursement funding, personal injury, other and provision for impairment.

- Financial assets - available for sale represented those equity instruments that Mercantile did not hold for trading purposes. As at 30 June 2016, financial assets - available for sale of \$40.66 million comprised \$36.51 million related to listed domestic and international investments, \$0.23 million related to unlisted domestic investments and \$3.92 million related to unlisted international investments.
- Non-current trade and other receivables as at 30 June 2016 of \$0.62 million related to a loan to Impact Holdings (UK) Plc. Interest on the loan is payable at the end of each quarter at a rate of 4.5% per annum. As at 30 June 2016, the balance of the advance to Impact Holdings (UK) Plc was 350,000 Great British Pounds.
- Unsecured notes of \$15.11 million as at 30 June 2016 comprised 156,457 unsecured notes issued at a face value of \$100 each. Terms of the notes are regulated under a trust deed between Mercantile and Australian Executor Trustee Limited.
- The increase in net assets from \$38.21 million as at 30 June 2015 to \$47.47 million as at 30 June 2016 was primarily due to the increase in the market value of Mercantile's investments in listed securities as well as interest, dividend and other income received during the year.

#### 6.4 Historical Statement of Profit or Loss and Other Comprehensive Income

| Statement of Profit or Loss and Other Comprehensive Income | Audited for the<br>year ended<br>30-Jun-16<br>A\$'000 | Audited for the<br>year ended<br>30-Jun-15<br>A\$'000 | Audited for the<br>year ended<br>30-Jun-14<br>A\$'000 |
|--|---|---|---|
| <b>Continuing operations</b>                               |   |   |   |
| Revenue  | 4,479   | 671   | 398   |
| Interest income  | 1,593   | 391   | -   |
| Other income   | 368   | 90  | 527   |
| <b>Expenses</b>  |   |   |   |
| Listed company expenses                                    | (1,241)   | (694)   | (717)   |
| Remuneration expenses                                      | (318)   | (182)   | (67)  |
| Impairment of loans and advances                           | (1,653)   | -   | -   |
| Loan recovery costs  | (296)   | -   | -   |
| Share based payments                                       | (164)   | -   | -   |
| Finance costs  | (100)   | (47)  | (85)  |
| Insurance  | (167)   | (130)   | -   |
| Other  | (191)   | (103)   | (29)  |
| <b>Profit/(loss) before income tax</b>                     | <b>2,307</b>  | <b>(5)</b>  | <b>27</b>   |
| Income tax (expense)/benefit                               | (658)   | 491   | (135)   |
| <b>Profit/(loss) after income tax</b>                      | <b>1,650</b>  | <b>486</b>  | <b>(109)</b>  |
| <b>Other comprehensive income/(loss)</b>                   |   |   |   |
| Movements in fair value of long term equity investments    | 4,598   | 1,388   | 7,636   |
| <b>Total comprehensive income/(loss) for the year</b>      | <b>6,248</b>  | <b>1,874</b>  | <b>7,527</b>  |

Source: Mercantile's audited financial statements for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

We note the following in relation to Mercantile's historical statement of profit or loss and other comprehensive income:

- Revenue comprised dividends, return of capital and distribution income, adjusted for realised losses on trading portfolio and unrealised gains or losses on trading portfolio, losses or gains on acquisition of a controlled entity, interest income and other income.
- The increase in revenue from \$0.67 million for the year ended 30 June 2015 to \$4.48 million for the year ended 30 June 2016 was wholly attributable to the performance of Mercantile's trading portfolio during the period.
- Impairment of loans and advances of \$1.65 million for the year ended 30 June 2016 represented impairments related to the acquisition of AKF in September 2015. As part of the acquisition of AKF, the net loans and advances of AKF were acquired by the Company. From the date of acquisition to 30 June 2016, AKF management impaired net loans and advances due to doubt over the collectability of principal and interest.

## 6.5 Capital Structure

The share structure of Mercantile as at 31 August 2016 is outlined below:

|  | Number      |
|--|-------------|
| Total ordinary shares on issue             | 280,000,000 |
| Top 20 shareholders                        | 222,551,507 |
| Top 20 shareholders - % of shares on issue | 79.48%      |

Source: Share Registry information

The range of shares held in Mercantile as at 31 August 2016 is as follows:

| Range of Shares Held | Number of Ordinary Shareholders | Number of Ordinary Shares | Percentage of Issued Shares (%) |
|----------------------|---------------------------------|---------------------------|---------------------------------|
| 1 - 1,000            | 663                             | 235,664                   | 0.08%                           |
| 1,001 - 5,000        | 1,326                           | 3,840,358                 | 1.37%                           |
| 5,001 - 10,000       | 484                             | 3,667,198                 | 1.31%                           |
| 10,001 - 100,000     | 646                             | 20,021,573                | 7.15%                           |
| 100,001 - and over   | 111                             | 252,235,207               | 90.08%                          |
| <b>TOTAL</b>         | <b>3,230</b>                    | <b>280,000,000</b>        | <b>100.00%</b>                  |

Source: Share Registry information

The ordinary shares held by the most significant shareholders as at 31 August 2016 are detailed below:

| Name                                  | Number of Ordinary Shares Held | Percentage of Issued Shares (%) |
|---------------------------------------|--------------------------------|---------------------------------|
| Sir Ron Brierley                      | 122,411,120                    | 43.72%                          |
| G W Holdings Pty Ltd                  | 25,750,522                     | 9.20%                           |
| Dr Gary Weiss                         | 15,455,001                     | 5.52%                           |
| Subtotal                              | 163,616,643                    | 58.43%                          |
| Others                                | 116,383,357                    | 41.57%                          |
| <b>Total ordinary shares on Issue</b> | <b>280,000,000</b>             | <b>100.00%</b>                  |

Source: Share Registry information

## 7. Economic analysis

### 7.1 Global

Overall, the global economy is continuing to grow at a moderate level, entering 2017 with more momentum than what was originally anticipated. Labour market conditions in advanced economies have improved over the past year, with growth in global industrial production and trade also picking up.

In China, growth was stronger over the second half of 2016 which was supported by higher spending on infrastructure and property construction. This has come as a result of China shifting away from an economy dependent on manufacturing, to one driven by consumer demand. High and rising debt, combined with excess capacity in some sectors, remains a risk to the medium-term outlook for growth in China.

Global financial markets have seen improved sentiment following a period of increased volatility. However, uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Globally, monetary policy remains accommodative.

### 7.2 Australia

#### Commodity prices

Commodity prices have increased significantly in recent months, following a steep decline over the past few years. The increase in commodity prices is partly attributable to factors such as increased Chinese demand for bulk commodities. Chinese authorities have also restricted domestic production to reduce overcapacity, which has further contributed to the appreciation of prices. These higher price levels are unlikely to be sustained, with forecasts assuming that much of the recent increase in commodity prices will be unwound over the next couple of years.

The increase in commodity prices has seen a consequent increase in Australia's terms of trade. The increase bucks a declining trend in Australia's terms of trade, which have steadily declined over the past four years.

#### Domestic growth

In Australia, the available information suggests that the economy is growing moderately. The Australian economy has experienced a large decline in mining investment. However, this is being offset by growth in other areas such as residential construction, government expenditure and exports. Despite higher commodity prices boosting the profits of resource firms, the increase is expected to be temporary. Consequently it is unlikely that stronger commodity prices will translate into materially higher investment or employment in the resource sector.

Inflation is expected to increase as the effects of some factors that have been weighing on domestic cost pressure dissipate, including earlier declines in the terms of trade and falling employment in mining-related industries. The increase in underlying inflation is likely to be gradual.

#### Credit growth

Credit growth has picked up over the last three months, partly due to a number of large privatisations being financed by business credit. Furthermore, loan approvals data suggests that lending to investors has risen over the past few months, which is consistent with the increase in investor housing loan approvals.

Conditions in the established housing market have strengthened recently, although there is substantial variation across the country.

Overall, financial conditions remain accommodative, with funding costs for creditworthy borrowers remarkably low.

### Currency movements

The recent increase in the terms of trade have been associated with an appreciation of the Australian dollar. An overall depreciating Australian dollar since 2013 has assisted the ongoing adjustment of the economy towards non-resource sectors following the end of the mining boom; an appreciating exchange rate could complicate that process.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Philip Lowe, Governor: Monetary Policy Decision 7 February 2017

## 8. Valuation approach adopted

In assessing whether the Offer is fair for Shareholders, we have considered a comparison between the value of an EZA share on a control basis prior to the Offer and the value of the consideration offered by Mercantile OFM, being 13.75 cents cash per EZA share.

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

### 8.1 Valuation of an EZA share prior to the Offer

In our assessment of the value of an EZA share prior to the Offer we have chosen to employ the following methodologies:

- NAV as our primary approach; and
- QMP as our secondary approach.

We have chosen these methodologies for the following reasons:

- As EZA does not currently have any operations, the core value of the Company is its cash and cash equivalents, which constitutes the majority of its net assets;
- The QMP basis is a relevant methodology to consider as EZA's shares are listed on the ASX. Although trading in EZA shares has ceased since 7 December 2015, the nature of the Company and its assets is consistent with that prior to its suspension. This means that pre-suspension trading in EZA shares provides a relevant guide to the current value of an EZA share in a regulated and observable market where EZA's shares can be traded. However, in order for the QMP methodology to be considered

appropriate, the Company's shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 9.2 of our Report;

- EZA does not generate regular trading income. Therefore, there are no historical profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate; and
- EZA has no foreseeable future cash inflows and therefore the application of the DCF valuation approach is not appropriate.

## 8.2 Valuation of the consideration offered by Mercantile OFM

Under the Offer, Shareholders will receive 13.75 cents per share in cash for each share held in EZA.

# 9. Valuation of EZA prior to the Offer

## 9.1 Net Asset Valuation of EZA

The value of EZA's assets on a going concern basis is reflected in our valuation below:

| Statement of Financial Position  | Ref    | Reviewed as at<br>31-Dec-16<br>\$'000 | Low value<br>\$'000 | High value<br>\$'000 |
|----------------------------------|--------|---------------------------------------|---------------------|----------------------|
| <b>CURRENT ASSETS</b>            |        |                                       |                     |                      |
| Cash and cash equivalents        |        | 9,047                                 | 9,047               | 9,047                |
| Trade and other receivables      |        | 76                                    | 76                  | 76                   |
| Other financial assets           | note 1 | 245                                   | 265                 | 290                  |
| <b>TOTAL CURRENT ASSETS</b>      |        | <b>9,368</b>                          | <b>9,388</b>        | <b>9,413</b>         |
| <b>NON-CURRENT ASSETS</b>        |        |                                       |                     |                      |
| Property, plant and equipment    | note 2 | 4                                     | -                   | -                    |
| <b>TOTAL NON-CURRENT ASSETS</b>  |        | <b>4</b>                              | <b>-</b>            | <b>-</b>             |
| <b>TOTAL ASSETS</b>              |        | <b>9,371</b>                          | <b>9,388</b>        | <b>9,413</b>         |
| <b>CURRENT LIABILITIES</b>       |        |                                       |                     |                      |
| Trade and other payables         |        | 26                                    | 26                  | 26                   |
| Employee benefits                | note 3 | 25                                    | 125                 | 125                  |
| <b>TOTAL CURRENT LIABILITIES</b> |        | <b>51</b>                             | <b>151</b>          | <b>151</b>           |
| <b>TOTAL LIABILITIES</b>         |        | <b>51</b>                             | <b>151</b>          | <b>151</b>           |
| <b>NET ASSETS</b>                |        | <b>9,320</b>                          | <b>9,236</b>        | <b>9,261</b>         |
| Number of shares on issue ('000) | 5.5    |                                       | 61,069              | 61,069               |
| <b>Value per share (€)</b>       |        |                                       | <b>15.12</b>        | <b>15.17</b>         |

Source: EZA's reviewed financial statements for the half year ended 31 December 2016 and BDO analysis (note numbers may not add due to rounding)

The table above indicates that the net asset value of an EZA share prior to the Offer is between 15.12 cents and 15.17 cents.



We have been advised that there has not been a significant change in the net assets of EZA since 31 December 2016 and that the above assets and liabilities represent their fair market values apart from the adjustments detailed below. Additionally, nothing has come to our attention as a result of our procedures that would suggest the need for any adjustments other than those noted below.

#### Note 1) Other financial assets

Other financial assets primarily relate to the Company's holding in EMR. We have adjusted the book value of the investment by assessing its market value at 17 February 2017. Our valuation of EZA's shares in EMR is set out below:

We have based our assessment of the value of the Company's holding in EMR on the weighted average market prices for 10, 30, 60 and 90 day periods to 17 February 2017.

| Share price per unit                 | 17-Feb-17 | 10 Days | 30 Days | 60 Days | 90 Days |
|--------------------------------------|-----------|---------|---------|---------|---------|
| Closing price                        | \$0.048   |         |         |         |         |
| Volume weighted average price (VWAP) |           | \$0.049 | \$0.048 | \$0.046 | \$0.046 |

Source: BDO analysis and Bloomberg

We have also considered the historical high and low prices in assessing the market value of the Company's holding in EMR, as set out below:

| Trading days | Share price low | Share price high |
|--------------|-----------------|------------------|
| 1 Day        | \$0.048         | \$0.049          |
| 10 Days      | \$0.046         | \$0.050          |
| 30 Days      | \$0.045         | \$0.051          |
| 60 Days      | \$0.039         | \$0.051          |
| 90 Days      | \$0.039         | \$0.051          |
| 180 Days     | \$0.039         | \$0.060          |
| 1 Year       | \$0.024         | \$0.060          |

Source: BDO analysis and Bloomberg

Based on the above analysis, we consider the value of a share in EMR to be between \$0.046 and \$0.051, with the total value of the Company's shares set out in the table below:

| Value of EZA's shareholding in EMR at 17-Feb-17              | Low value  | High value |
|--|------------|------------|
| Assessed value per EMR share (\$)                            | 0.046      | 0.051      |
| Number of EMR shares held by EZA                             | 5,000,000  | 5,000,000  |
| <b>Value of EZA's shareholding in EMR 17-Feb-17 (\$'000)</b> | <b>230</b> | <b>255</b> |

Source: BDO analysis

Therefore the adjusted value of the Company's other financial assets is as follows:

| Adjusted other financial assets   | Low value<br>\$'000 | High value<br>\$'000 |
|---|---------------------|----------------------|
| Other financial assets at 31-Dec-16 not relating to EZA's shareholding in EMR | 35                  | 35                   |
| Value of EZA's shareholding in EMR at 17-Feb-17                               | 230                 | 255                  |
| <b>Adjusted other financial assets</b>  | <b>265</b>          | <b>290</b>           |

Source: BDO analysis and Bloomberg

## Note 2) Property, plant and equipment

We do not consider the book value of EZA's property, plant and equipment to be reflective of its market value and therefore have adjusted the balance to nil.

## Note 3) Employee benefits

In the event of termination by the Company, Mr Rose will be entitled to a termination payment of \$100,000, less any payment made in lieu of notice. We have adjusted employee benefits to reflect this contingent liability, as shown below:

| Employee benefits                 | \$'000     |
|-----------------------------------|------------|
| Employee benefits at 31-Dec-16    | 25         |
| Termination payment to Mr Rose    | 100        |
| <b>Adjusted employee benefits</b> | <b>125</b> |

Source: BDO analysis and Bloomberg

## 9.2 Quoted Market Prices for EZA Securities

To provide a comparison to the valuation of EZA in section 9.1, we have also assessed the quoted market price for an EZA share.

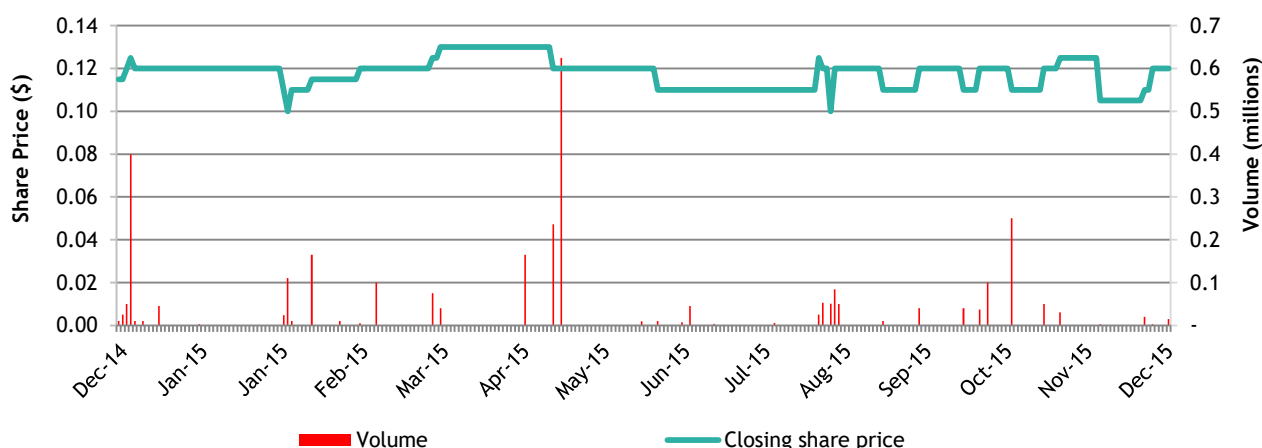
The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

### Minority interest value

Our analysis of the quoted market price of an EZA share is based on the pricing prior to the Company's suspension from official quotation on the ASX. As EZA is still suspended due to failure to comply with Chapter 12 of the ASX Listing Rules, we are unable to analyse the value of an EZA share prior to the announcement of the Offer. However, after selling its ATM business in October 2014, EZA's shares continued to trade on the ASX until it was suspended on 7 December 2015. During this period EZA had no operations and a similar cash balance to what it holds now. Therefore, as the Company still has no operations we consider the price at which the Company's share closed at on 7 December 2015, to be a reliable indication of what EZA shares would trade at prior to the Offer.

EZA was suspended from official quotation on the ASX on 7 December 2015. Therefore, the following chart provides a summary of the share price movement over the 12 months to 3 December 2015 which was the last trading day prior to suspension of the Company's shares.

EZA share price and trading volume history



Source: Bloomberg

The daily price of EZA shares over the twelve months from 3 December 2014 to 3 December 2015 has ranged from a low of \$0.10 on 10 August 2015 to a high of \$0.13 on 1 May 2015. The highest single day of trading was on 6 May 2015, where 625,000 shares were traded.

During this period a number of announcements were made to the market. The key announcements are set out below:

| Date       | Announcement                    | Closing Share Price Following Announcement<br>\$ (movement) |   |      | Closing Share Price Three Days After Announcement<br>\$ (movement) |   |       |
|------------|---------------------------------|---|---|------|--|---|-------|
| 26/10/2015 | Appendix 4C - quarterly         | 0.120   | ▶ | 0.0% | 0.125  | ▲ | 4.2%  |
| 21/08/2015 | Preliminary Final Report        | 0.120   | ▶ | 0.0% | 0.110  | ▼ | 8.3%  |
| 24/07/2015 | Appendix 4C - quarterly         | 0.110   | ▶ | 0.0% | 0.110  | ▶ | 0.0%  |
| 29/04/2015 | Appendix 4C - quarterly         | 0.130   | ▶ | 0.0% | 0.120  | ▼ | 7.7%  |
| 20/02/2015 | Half Yearly Report and Accounts | 0.115   | ▶ | 0.0% | 0.120  | ▲ | 4.3%  |
| 27/01/2015 | Appendix 4C - quarterly         | 0.120   | ▶ | 0.0% | 0.100  | ▼ | 16.7% |

Source: Bloomberg and BDO analysis

On 27 January 2015, the Company released its Appendix 4C Quarterly Report which highlighted receipts from customers for the quarter to be \$1.57 million. The announcement also detailed that the Company had disposed of other assets relating to its ATM business, including physical assets and other intangible assets. On the date of the announcement, the share price remained unchanged however over the three subsequent trading days, the share price declined by 16.7% to close at \$0.10. No new announcements were released by the Company over the subsequent three trading days.

On 20 February 2015, the Company released its Half Yearly Report and Accounts. Revenues from ordinary activities were down 39.4% compared to the previous corresponding period, however overall net profit was up from a loss of \$0.75 million to \$6.95 million compared to the previous corresponding period. On the date of the announcement EZA's share price remained unchanged, however over the three subsequent trading days the share price increased by 4.3% to close at \$0.12.

On 29 April 2016, the Company released its Appendix 4C Quarterly Report which highlighted that EZA was working towards finalising outstanding matters relating to the sale of its ATM business, and the

expectation that net operating cash flows would decrease in the quarter to 30 June 2015. On the date of the announcement, EZA's share price remained unchanged however over the three subsequent trading days the share price decreased by 7.7% to a close of \$0.12.

On 21 August 2015, the Company released its Preliminary Final Report which highlighted an improved net asset position associated with the sale of assets connected with its ATM business and the receipt of cash proceeds from the sale. On the date of the announcement, the Company's share price remained unchanged however over the three subsequent trading days EZA's share price decreased by 8.3% to a close of \$0.11.

On 26 October 2015, the Company released its Appendix 4C Quarterly Report showing receipts from customers of \$nil and net operating cash flows to be an outflow of \$0.09 million. On the date of the announcement, EZA's share price remained unchanged, however over the three subsequent trading days it increased by 4.2% to close at \$0.125.

To provide further analysis of the market prices for an EZA share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 3 December 2015.

|                  | 3-Dec-15 | 10 Days | 30 Days | 60 Days | 90 Days |
|------------------|----------|---------|---------|---------|---------|
| Closing Price    | \$0.120  |         |         |         |         |
| Weighted Average |          | \$0.115 | \$0.119 | \$0.115 | \$0.116 |

Source: Bloomberg and BDO analysis

The above weighted average prices are prior to the suspension of the Company's securities.

An analysis of the volume of trading in EZA shares for the twelve months to 3 December 2014 is set out below:

| Trading days | Share price low | Share price high | Cumulative volume traded | As a % of Issued capital |
|--------------|-----------------|------------------|--------------------------|--------------------------|
| 1 Day        | \$0.120         | \$0.120          | 15,000                   | 0.02%                    |
| 10 Days      | \$0.105         | \$0.120          | 38,000                   | 0.06%                    |
| 30 Days      | \$0.105         | \$0.125          | 71,000                   | 0.12%                    |
| 60 Days      | \$0.105         | \$0.125          | 548,300                  | 0.90%                    |
| 90 Days      | \$0.100         | \$0.125          | 861,118                  | 1.41%                    |
| 180 Days     | \$0.100         | \$0.130          | 1,967,793                | 3.22%                    |
| 1 Year       | \$0.100         | \$0.130          | 3,059,135                | 5.01%                    |

Source: Bloomberg, BDO analysis

This table indicates that EZA's shares displayed a low level of liquidity, with 5.01% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- regular trading in a company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of EZA, we do not consider there to be a deep market for the Company's shares as a result of only 5.01% of the Company's current issued capital being traded over a twelve month period prior to the suspension of the Company's securities from the ASX. Furthermore, the Company's shares have been suspended since December 2015, which means the market has been unable to price EZA shares for the last twelve months. Consequently the QMP may not be reflective of what the market would price an EZA share at if it could readily trade EZA shares today.

Our assessment is that a range of values for EZA shares based on market pricing is between 11 cents and 12 cents.

### Control Premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

| Year   | Number of Transactions | Average Deal Value (AU\$m) | Average Control Premium (%) |
|--------|------------------------|----------------------------|-----------------------------|
| 2016   | 20                     | 634.85                     | 43.91                       |
| 2015   | 37                     | 721.21                     | 41.72                       |
| 2014   | 42                     | 475.59                     | 34.56                       |
| 2013   | 38                     | 196.99                     | 51.55                       |
| 2012   | 49                     | 358.29                     | 46.38                       |
| 2011   | 61                     | 575.91                     | 53.88                       |
| 2010   | 64                     | 785.58                     | 42.12                       |
| 2009   | 60                     | 340.75                     | 49.86                       |
| Mean   |                        | 511.15                     | 45.50                       |
| Median |                        | 525.75                     | 45.14                       |

Source: Bloomberg and BDO analysis

The mean and median figures above are calculated based on the average deal value and control premium for each respective year. To ensure our data is not skewed we have also calculated the mean and median of the entire data set comprising control transactions from 2009 onwards, as set out below:

| Entire Data Set Metrics | Average Deal Value (AU\$m) | Average Control Premium (%) |
|-------------------------|----------------------------|-----------------------------|
| Mean                    | 511.67                     | 46.64                       |
| Median                  | 85.09                      | 36.13                       |

Source: Bloomberg and BDO analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;

- level of pre-announcement speculation of the transaction; and
- level of liquidity in the trade of the acquiree's securities.

The tables above indicate that the long term average control premium paid by acquirers of companies listed on the ASX is approximately 46% since 2008. However, in assessing the sample of transactions that were included in the table, we noted transactions within the list that appear to be extreme outliers. These outliers include 30 transactions in which the announced control premium was in excess of 100%.

In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median control premium over the review period was approximately 36%.

In determining a control premium most appropriate for EZA, we have considered a number of factors. The principal influencing factor we have considered is that EZA was suspended from official quotation on 7 December 2015. The Company's securities remain suspended as at the date of this report, due to being unable to demonstrate compliance with Chapter 12 of the ASX Listing Rules. The primary reason for non-compliance with Listing Rule 12 is that the Company does not have any operations.

Typically a large component of a control premium relates to the ability to influence the operations of the Company. As EZA does not have any current operations the ability to influence them is no longer relevant. A controlling interest in the Company will however have access to the net assets of EZA, which comprises mostly cash.

Based on the above analysis, we consider that an appropriate premium for control to be paid by Mercantile OFM is between 10% and 20% with a midpoint of 15%.

### Quoted market price including control premium

Applying a control premium to EZA's quoted market share price results in the following quoted market price value including a premium for control:

|  | Low value<br>¢ | Midpoint<br>value<br>¢ | High value<br>¢ |
|--|----------------|------------------------|-----------------|
| Quoted market price value  | 11.00          | 11.50                  | 12.00           |
| Control premium  | 10%            | 15%                    | 20%             |
| <b>Quoted market price valuation including a premium for control</b> | <b>12.10</b>   | <b>13.23</b>           | <b>14.40</b>    |

Source: BDO analysis

Therefore, our valuation of an EZA share based on the quoted market price method and including a premium for control is between 12.10 cents and 14.40 cents, with a midpoint of 13.23 cents.

### 9.3 Assessment of the value of EZA prior to the Offer

The results of our valuation of an EZA share prior to the Offer are presented in the table below:

|                     | Ref | Low value<br>¢ | Midpoint value<br>¢ | High value<br>¢ |
|---------------------|-----|----------------|---------------------|-----------------|
| Net assets value    | 9.1 | 15.12          | 15.14               | 15.17           |
| Quoted market price | 9.2 | 12.10          | 13.23               | 14.40           |

Source: BDO analysis

We note that our NAV is higher than the value obtained using the QMP methodology. We consider the value of an EZA share derived under the NAV approach to be most appropriate for the following reasons:

- If the Company was to distribute its liquid assets to its Shareholders, each Shareholder would receive between 15.12 cents and 15.17 cents per EZA share. This is a realistic possibility and a potential outcome if the directors are unable to find a suitable new business to invest in in the short term.
- Under RG 111.69 (d), the QMP methodology is considered appropriate where a liquid and active market exists for the securities. From our analysis of the QMP of an EZA share in section 9.2, we concluded that EZA's shares exhibited a low level of liquidity prior to being suspended. Due to the illiquid nature of EZA shares, the market has valued them at a discount to their intrinsic value to reflect the difficulty shareholders may experience when attempting to exit their investment and realise a capital gain.
- Furthermore, EZA's shares have been suspended since December 2015. Therefore, the market has been unable to price EZA shares for the past twelve months. Consequently the QMP may not be fully reflective of what the market would price an EZA share at if it could readily trade EZA shares today. It would be reasonable to assume that more current trading would reflect more current expectations of additional, or reduced, value being returned from holding a share in EZA.

Based on the above analysis, results above we consider the value of an EZA share to be between 15.12 cents and 15.17 cents.

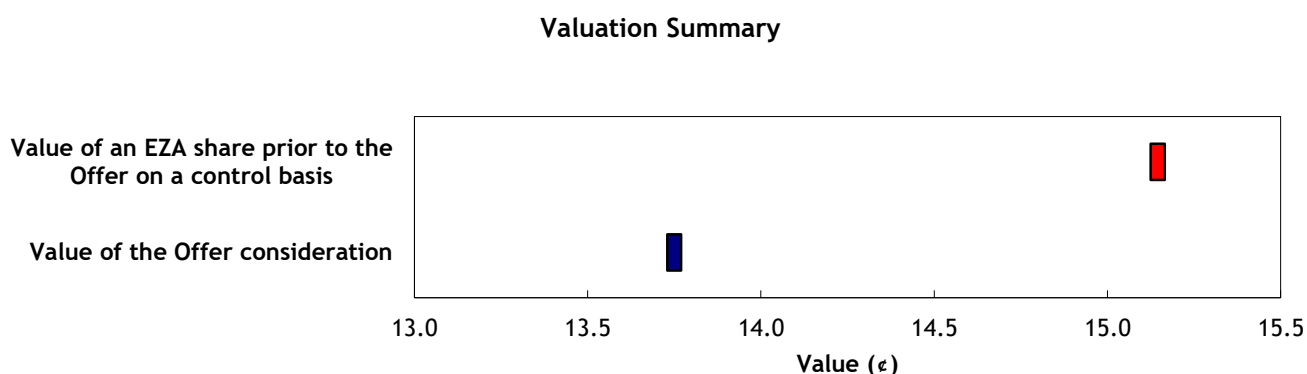
## 10. Is the Offer fair?

The value of the Offer consideration per share compared to the value of an EZA share prior to the Offer, on a control basis is shown below:

|   | Ref | Low value ¢ | High value ¢ |
|---|-----|-------------|--------------|
| Value of an EZA share prior to the Offer on a control basis | 9.3 | 15.12       | 15.17        |
| Value of the Offer consideration                            | 8.2 | 13.75       | 13.75        |

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the value of an EZA share prior to the Offer on a control basis is greater than the value of the Offer consideration per EZA share. Therefore, in the absence of any other relevant information, and a superior offer, we consider that the Offer is not fair for Shareholders.

## **11. Is the Offer reasonable?**

### **11.1 Advantages of Accepting the Offer**

If the Offer is accepted, in our opinion, the potential advantages to Shareholders include the following:

#### **11.1.1. The Offer provides Shareholders with an opportunity to realise their investment with certainty**

Shares in EZA have been suspended from quotation on the ASX since December 2015. Furthermore, in the twelve months prior to being suspended, the Company's shares displayed a very low level of liquidity, with only 5.01% of the Company's total issued capital being traded.

The Offer consideration of cash provides Shareholders with an opportunity to realise their investment in EZA and to utilise the cash received for other purposes such as in alternative investments.

The certainty of the cash consideration presents an advantage to Shareholders in a time when they are unable to trade their EZA shares on the market and there is uncertainty surrounding the future operations of the Company. It also provides certainty in the absence of any announcements by the Company about the existence or possibility of any corporate opportunities that may provide the potential for value growth.

#### **11.1.2. The Offer is at a premium to the Company's last traded price**

After selling its ATM business in October 2014, EZA continued to trade on the ASX until it was suspended on 7 December 2015. During this period EZA had no operations and a similar cash balance to what it holds now. Therefore, as the Company still has no operations we consider the price at which the Company's share closed at on 7 December 2015, to be an indicator of what EZA shares would trade at in the absence of the Offer.

The Offer consideration of 13.75 cents per share is a premium to the last traded price of 12.00 cents.

#### **11.1.3. The Offer is not subject to a minimum acceptance condition**

Under the terms of the Offer there is no minimum acceptance condition. Therefore, Shareholders are free to accept the Offer regardless of whether other Shareholders decide to accept the Offer. This provides Shareholders with certainty of a cash return on their investment, should they choose to accept the Offer.

### **11.2 Disadvantages of Accepting the Offer**

If the Offer is accepted, in our opinion, the potential disadvantages to Shareholders include the following:



### **11.2.1. The Offer is not fair**

Our analysis in section 10 of the Report concludes that the Offer is not fair to Shareholders.

We note that a \$100,000 termination fee payable to the Managing Director Mr Rose in the event that the Company winds up. As the Company's net assets primarily comprise cash and cash equivalents, the additional costs and time associated with winding up the Company would be minimal. Consequently, if the directors choose to wind up the Company, the value per share available to Shareholders would not be significantly different from the NAV range of 15.12cents to 15.17 cents per share derived in section 10 of our Report, which is greater than the Offer consideration of 13.75 cents per EZA share.

### **11.2.2. Shareholders will be unable to participate in the potential upside of prospective operations**

If Shareholders accept the Offer, they will be unable to participate in the potential upside of prospective opportunities that the Company is currently exploring. The financial standing of the Company, in particular its holding of cash and cash equivalents, places it in a strong position to pursue other value-enhancing opportunities.

If the Company successfully invests in an opportunity it is likely that the attractiveness of the Company will increase and in turn Shareholders may be offered a higher value for their shareholding. If Shareholders accept the Offer they will be unable to realise such an opportunity, should it eventuate. Conversely, there is also the possibility that the Company is unable to find the right opportunity which may lead to a value leakage for Shareholders, or the opportunity that is followed is unsuccessful.

### **11.2.3. Shareholders may face potential tax implications**

We note that there is no capital gains scrip-for-scrip rollover relief available under the Offer. If Shareholders accept the Offer, they may face potential tax implications such as crystallising a capital gains tax liability on the disposal of their shares. Individual shareholders should consult their tax advisers in relation to their personal circumstance.

## **11.3 Advantages of Rejecting the Offer**

If the Offer is rejected, in our opinion, the potential advantages to Shareholders include the following:

### **11.3.1. If the Company is unable to secure a suitable asset by mid-2017, the directors of EZA will put a proposal to Shareholders for a partial capital return**

As stated by the directors in EZA's Target's Statement, should the Company be unable to secure a suitable asset by mid-2017, the directors will put a proposal to Shareholders for a partial capital return, unless the Company is well advanced in the negotiations of an acquisition. This will provide Shareholders, who have previously been unable to access their invested funds, the opportunity to realise a partial value of their asset enabling them to use the cash they will receive for other investment purposes.

## **11.4 Disadvantages of Rejecting the Offer**

If the Offer is accepted, in our opinion, the potential disadvantages to Shareholders include the following:

#### 11.4.1. Shareholders who reject the Offer could become minority shareholders in a company in which Mercantile OFM would have a controlling interest

As there is no minimum acceptance condition under the terms of the Offer, Shareholders will be able to accept the Offer for their respective shareholding in EZA regardless of the decision by other Shareholders. Consequently, Shareholders who reject the Offer may potentially be left holding a minority interest shareholding in a Company that Mercantile OFM has a controlling interest in.

The implications of the various levels of control that Mercantile OFM may obtain as a result of the Offer are outlined below:

| Controlling Interest | Company Influence                                       |
|----------------------|---|
| >5%                  | ability to requisition a general meeting of the Company |
| >10%                 | ability to prevent a compulsory acquisition             |
| >25%                 | ability to block special resolutions                    |
| >50%                 | ability to block and pass general resolutions           |
| >75%                 | ability to pass special resolutions                     |
| >90%                 | ability to initiate a compulsory takeover               |

Further, Mercantile OFM has indicated that if it acquires 50.1% or more, but less than 90% of the shares, then it proposes to seek the appointment of a majority of Mercantile OFM nominees to the Board and it will seek to remove EZA from the official list of ASX. Therefore, if Mercantile OFM gains control (greater than 50%), those Shareholders who did not accept the Offer face the risk of holding a share in an unlisted company.

#### 11.4.2. EZA has two years to re-comply with Chapter 12 of the ASX Listing Rules or face automatic removal from the official list

ASX's policy is to remove from the official list any entity whose securities have been suspended from trading for a continuous period of three years. ASX considers this to be appropriate for the purpose of Listing Rule 17.12, which is set out below:

##### Listing rule 17.12 - Removal not at entity's request

ASX may at any time remove an entity from the official list if, in ASX's opinion, any of the following applies:

- the entity is unable or unwilling to comply with, or breaks, a listing rule;
- the entity has no quoted securities; and
- it is appropriate for some other reason.

We note that EZA was suspended from official quotation on 7 December 2015. The Company's securities remain suspended at the date of this report, as the Company has been unable to demonstrate compliance with Chapter 12 of the ASX Listing Rules.

If the Offer is not accepted, EZA will have two years to identify and consolidate an operational opportunity otherwise it will be automatically removed from the official list by the ASX. As such EZA's shares could be suspended for some time and if a suitable investment opportunity is not found in that time

then a potential outcome is for the Company to be delisted and the Company's assets distributed to Shareholders.

### **11.5 Alternative Proposal**

We are unaware of any alternative proposal that might offer the Shareholders of EZA a premium over the Offer consideration.

### **11.6 Conclusion on reasonableness**

Based on the above, we consider the disadvantages of accepting the Offer in conjunction with the advantages of rejecting the Offer outweigh the advantages of accepting the Offer and disadvantages of rejecting the Offer. Therefore, we consider the Offer to be not reasonable for Shareholders.

## **12. Conclusion**

We have considered the terms of the Offer as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Offer is neither fair nor reasonable to Shareholders.

As determined in section 10, the Offer is not fair. By accepting the Offer, Shareholders will forgo the potential available through any new project that may be acquired by the Company. Furthermore, the directors of EZA have stated in the Target's Statement that should the Company be unable to secure a suitable asset by mid-2017, they will put a proposal to Shareholders for a partial capital return, unless the Company is well advanced in the negotiations of an acquisition.

However, if a Shareholder requires cash immediately, to utilise for other investments and/or wants certainty in their return on an EZA share, the Offer may be reasonable for such Shareholders.

## **13. Sources of information**

This report has been based on the following information:

- Mercantile's undated Bidder's Statement which was issued on 10 February 2017;
- draft Target's Statement on or about the date of this report;
- audited financial statements of EZA and Mercantile for the years ended 30 June 2015 and 30 June 2016;
- Reviewed financial statements of EZA for the half-year ended 31 December 2016;
- supporting financial records of EZA;
- share registry information;
- CHESS holding statement;
- information in the public domain; and
- discussions with the directors of EZA.

## 14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$16,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by EZA in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the EZA, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to EZA and Mercantile and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of EZA and Mercantile, and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with EZA, or their associates, other than in connection with the preparation of this report. We note that we have been appointed as independent expert in relation to the takeover bid by Mercantile OFM for the shares in MHM.

A draft of this report was provided to EZA and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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## 15. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants in Australia and New Zealand. He has over twenty nine years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in

Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 19 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 16. Disclaimers and consents

This report has been prepared at the request of EZA for inclusion in the Target's Statement, which will be sent to all EZA Shareholders. EZA engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider if the off-market takeover bid by Mercantile OFM for all the issued shares in EZA at 13.75 cents per EZA share, is fair and reasonable to Shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Mercantile. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of EZA, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.



Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**

A handwritten signature in black ink, appearing to read 'Sherif Andrawes', written in a cursive style.

**Sherif Andrawes**

Director

A handwritten signature in blue ink, appearing to read 'Adam Myers', written in a cursive style.

**Adam Myers**

Director

# Appendix 1 - Glossary of Terms

| Reference        | Definition  |
|------------------|---|
| The Act          | The Corporations Act 2001 Cth   |
| AKF              | Ask Funding Limited   |
| APES 225         | Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' |
| ASIC             | Australian Securities and Investments Commission  |
| ASX              | Australian Securities Exchange  |
| ATM              | Automatic Teller Machine  |
| BDO              | BDO Corporate Finance (WA) Pty Ltd  |
| The Company      | EZA Corporation Limited   |
| Corporations Act | The Corporations Act 2001 Cth   |
| DCF              | Discounted Future Cash Flows  |
| DirectCash       | DirectCash Payments Inc   |
| EBIT             | Earnings before interest and tax  |
| EBITDA           | Earnings before interest, tax, depreciation and amortisation  |
| EMR              | Emerald Resources NL  |
| EZA              | EZA Corporation Limited   |
| FME              | Future Maintainable Earnings  |
| FOS              | Financial Ombudsman Service   |
| FSG              | Financial Services Guide  |
| Mercantile       | Mercantile Investment Company Limited   |
| Mercantile OFM   | Mercantile OFM Pty Limited  |
| MHM              | MHM Metals Limited  |

| Reference            | Definition   |
|----------------------|--|
| NAV                  | Net Asset Value  |
| QMP                  | Quoted market price  |
| RBA                  | Reserve Bank of Australia  |
| Regulations          | Corporations Act Regulations 2001 (Cth)  |
| the Offer            | off-market takeover bid by Mercantile OFM for all the issued shares in EZA at 13.75 cents per EZA share  |
| our Report           | This Independent Expert's Report prepared by BDO   |
| RG 111               | Content of expert reports (March 2011)   |
| RG 112               | Independence of experts (March 2011)   |
| Shareholders         | Shareholders of EZA not associated with Mercantile   |
| Valuation Engagement | An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time. |

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The Directors

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## Appendix 2 - Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

### 1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity'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
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### 2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

### 3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### **4 Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### **5 Market Based Assessment**

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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