LEED RESOURCES
Investor Presentation

UPDATE ON INVESTMENT IN HIGH MANNOR

AND LISTING STATUS

July 2016

LEED RESOURCES PLC

Cultural Limestone

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Background

Leed's investment in High Mannor

- Leed has currently invested A$ 1.68m in secured convertible loan notes that were issued by Battalion International Limited (Battalion"). Battalion in turn invested in convertible loan notes that were issued by its subsidiary, High Mannor Pty Ltd ("High Mannor"). The convertible loan notes held by Leed had accrued interest of approx. £48k as at 31 December 2015. In addition Leed has remitted A$ 250k to support the working capital of High Mannor which accrues interest at 12% per annum.
- High Mannor is a Western Australian quarry and building materials business, trading as "Cultural Limestone", focused on the production, delivery and installation of reconstituted limestone blocks for use in retaining walls.
- When the investment decision was made, it was understood that the existing business of High Mannor was a highly competitive, low margin business but High Mannor had developed a proprietary limestone wall panel product that had the potential to transform the business due to a number of advantages compared to the traditional blocks.
- At the time of the investment, High Mannor had already ordered the first set of moulds to produce the panels and applied for the patents for the panels. However, given the unproven nature of the panels and the execution risk, Leed decided to invest through a secured convertible loan note rather than participate directly in equity at Battalion.
- If all notes are converted in accordance with their current terms, Leed would hold a 18.4% in Battalion which effectively equates to approximately 14% interest in High Mannor.
- However, due to non-performance under the convertible loan, Leed (and other note holders) are looking to renegotiate the terms of the notes with Battalion and in turn High Mannor.
- It is anticipated that this restructuring will result in Leed holding a substantially larger position in the underlying business.

Background

Leed's listing status on the AIM market

- At Leed's AGM on the 12 February 2015, a new investing policy was approved and as a consequence, Leed had 12 months to complete its investing policy in order to avoided being suspended by AIM.
- Based on the investment that had been made in Battalion in January 2015, the Board felt at that time that the investing policy was most likely to be met through a negotiation and completion of a RTO with Battalion. However, the Board did not want to make any commitments with respect to any transaction with Battalion until such time as it had seen the successful introduction of High Manor's proprietary wall panel product into the market.
- For a number of reasons (set out in more detail in this presentation), this did not materialise during 2015 and, in early 2016, it was announced that Leed had agreed indicative terms of an RTO with Battalion, but that it was subject to satisfactory completion of due diligence.
- The Board was concerned that, although an initial delivery of wall panels had been successfully undertaken in January 2016, there appeared to be a number of management and operational issues in High Manor that were affecting its performance (as further explained in this presentation).
- This has led to an intense period of due diligence being undertaken and a change in management of High Management with a Steering Committee being formed to undertake day to day management of the business.
- Whilst a number of improvements have been made in the past 3 months (as set out in this presentation), the Board is of the opinion that the business is not currently in a position that would support a decision being made to complete an RTO. As a consequence, it is expected that Leed will be delisted in mid-August.
- In this presentation, the Board explains the issues and the current status of High Manor and sets out some of its initial thoughts on future value creation and liquidity for Leed shareholders.

Key Issues Identified in Due Diligence

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Fraudulent activities

- As highlighted in the announcement of 21 March 2016, it was discovered that a senior member of the management team at High Mannor had carried out fraudulent activities resulting in losses for High Mannor. These actions cost High Mannor a substantial amount of money through the unauthorised and fraudulent use of High Mannor property, as well as indirectly negatively impacting performance through a deliberate culture of miscommunication and lack of transparency
- The manager in question was dismissed in February 2016 and the matter is in the hands of detectives of the Australian police. Clear evidence exists that the individual used High Mannor property (both product and equipment), as well as personnel, to work on non-High Mannor jobs without the approval of management. He also made numerous purchase orders charged to High Mannor for items for personal use (the validity of these purchases are being challenged by High Mannor).
- The list of direct fraudulently incurred costs reported to the police exceed A$50k, although the total cost is almost certainly substantially higher than this.

Poor management control

- The review of operations uncovered further issues in High Mannor, particularly those functions overseen by the manager mentioned above, notably:
  - Large amounts of sick days from workers
  - Substantial overtime to produce volumes of blocks that should (and now are) being produced within the standard working day
  - Inadequate accountability and control of use of supplies (e.g. fuel)
  - Failure to control key cost items such as block layer costs (NB: High Mannor has now reduced rates in line with market and no block layers are refusing work).

Key Issues Identified in Due Diligence (cont'd)

Inadequate internal communication and accountability

- One of the most obvious issues at High Mannor was a lack of communication between the different functions in the business.
- High Mannor failed to adequately compare the actual costs being incurred on each job to that of the original estimation/quotation. This led to jobs being priced to achieve a target "margin" at estimation, but given incorrect cost assumptions, resulted in jobs becoming loss-making or even failing to make positive contribution. As an example, block production and transportation costs were significantly higher than those used in the estimations.
- The lack of formal agreements with, and controls over, subcontractors (such as the block layers) led to a number of situations where mistakes were made by subcontractors whom were essentially paid "again" by High Mannor to rectify those mistakes.

Lack of focus arising from the introduction of wall panels

- The principal driver behind the initial investment into Battalion/ High Mannor, and indeed the continued funding of High Mannor through the convertible note issues, was the "game changing" potential of the patented wall panels.
- It seems apparent that the emphasis on the delivery of the patented wall panels into the market led to management losing focus on the need to ensure that the ongoing business was operating as efficiently as possible. The original expectation was that the existing "block" business was a break even / low margin business but that the introduction of panels would drive increased margins and value.
- However, High Mannor started to incur ever increasing losses (for reasons highlighted above and in previous announcements to shareholders). This has not been helped by challenging market conditions in Western Australia due to the downturn in the resources sector which is the key driver of the local economy.

Market Introduction of Panels

What has happened so far

- When the initial tranche of the convertible notes were issued in January 2015, High Mannor had already placed an order for second generation moulds that were expected to be delivered from the supplier in China within a "few weeks". However 2015 saw a number of delays and issues relating to the moulds and panel production, namely:
  - Amendments deemed necessary to the designs of the moulds caused delays in delivery from China and eventually the first moulds were delivered to High Mannor in June 2015;
  - Following the delivery of moulds, a second tranche of notes were issued in July 2015 to provide capital to upgrade the panel production facilities and provide further working capital in anticipation of the first panel deliveries into the market in August 2015, however
  - Further delays were then announced as a result of additional modification work on the moulds;
  - The work was undertaken locally from September onwards such that prior to the end of 2015, High Mannor announced it was successfully producing panels and the first delivery would commence in early January 2016
- The first installation of wall panels did finally occur on 22nd January 2016, when 18 panels were successfully delivered and installed at a project for High Mannor's largest customer. Whilst initial delivery and installation was smooth and quick, the customer complained that the High Mannor team (led by the manager since dismissed) did not complete the work for a number of days. It was later discovered that this manager had been engaging in the fraudulent activities highlighted above and was dismissed in February.
- Although the commencement of panel deliveries was meant to be the turning point for High Mannor, the combination of issues relating to the fraud, increasing working capital needs due to the substantial losses incurred in December and January, the departure of the Head of Operations due to "family reasons", led Tim Robins to resign as Executive Director and request repayment of his working capital facility. This resulted in High Mannor seeking both new leadership and replacement working capital finance.

Key Measures Taken To Date

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- Upon establishment of the Steering Committee, Tony Cammarano effectively took over the role as CEO of the business. Mr Cammarano is an experienced businessman from WA with an interest in High Mannor. Since his appointment as CEO and with the support of the Steering Committee, Mr. Cammarano has undertaken a series of key initiatives to address the shortfalls identified. These include:

Removal of manager and filing of police report

- As previously reported, the manager accused of fraudulent activities was dismissed with cause in February 2016 and a police report has been filed with the local police together with statements provided by a number of High Mannor officers / employees. The matter has now been passed to detectives whom appear to be taking the case seriously. A full list of items believed to have been stolen and / or fraudulently used, has been provided to the detectives taking charge of the investigation.
- Once this matter has been progressed by the police High Mannor will consider launching a civil action against the individual for damages.

Amendment to process for issuing quotations

- Given the lack of clarity on appropriate costs to include in Estimations, the Steering Committee placed far more stringent criteria in respect of all new quotations. This, not surprisingly, resulted in the volume of new business reducing considerably as High Mannor either declined to bid or bid at prices that were not viewed as competitive.
- Subcontractors are being told that they need to accept lower rates in order to be considered for certain jobs. In doing so, High Mannor is reducing its costs thus enabling it to bid more aggressively whilst maintaining its margin.
- In addition, improving efficiencies at the quarry focused at reducing the production cost per block allow High Mannor to use lower cost assumptions when bidding for new work, without compromising on margins. Whilst more time is needed before the Steering Committee are comfortable that costs have been substantially and permanently reduced, the early signs are positive as, for example, block production costs in April were 14% lower than the average monthly cost for the quarter ended 31 March 2016.

Key Measures taken to date

Personnel reductions

- Since mid February, as shown below, the number of full time employees at High Manor (and its wholly owned subsidiary, Civex) has been reduced by 13 people (i.e. a 30% reduction).

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Change
High Manor	31	27	27	25	23	- 8
Civex	11	11	9	9	6	- 5
Total	42	38	36	34	29	- 13

- This has been done without materially impacting the capacity of High Manor and it is likely that some further reductions will occur in the coming weeks. In some cases individuals are being let go because they are not considered suitable for the job and will need to be replaced. However, as High Manor grows it will look to utilise contract labour wherever appropriate to maximize flexibility, rather than increasing the number of full time employees.
- The impact of these reductions has been to reduce the weekly wage bill from approximately A$78k pw in February to A$65k per week as of today. This represents a cost reduction of A$55k per month.

Implementation of contractual arrangements with all subcontractors

- Previously, whilst High Manor was signing contractual arrangements with its clients, many sub-contractors were operating without written contracts. Therefore, if a block layer's work was not up to standard, High Manor had limited contractual ability to hold them accountable.
- Given that subcontractors are typically paid on a fortnightly basis rather than monthly in arrears (i.e. when High Manor gets paid), in order to avoid issues with its clients and delays in receipt of revenue, High Manor sometimes found itself having to pay the sub-contractor to rectify his own mistakes.
- This has been changed - all subcontractors must now sign contracts making them liable for their own mistakes before being allowed to work for High Manor.

Key Measures taken to date

Full integration of job costing and monitoring of actual job performance

- The process of quoting for new jobs and ongoing monitoring of jobs is now fully integrated with relevant managers all involved in preparing quotes and all proposed quotes being approved by Mr. Cammarano.
- The High Mannor team is also becoming more actively engaged in discussions with clients to try and understand the likely price expectations. Taking a stronger line on pricing but maintaining this dialogue has had positive outcomes. In some instances where High Mannor has refused to lower prices, clients have come back and accepted the earlier quote or asked for only minor changes.
- For jobs where pricing is tight, High Mannor has also approached subcontractors and told them that they need to accept lower price levels if they want to be considered for the work. This has led to circumstances where, for example, block layers have agreed to a 10% discount to "normal" block-laying rates (which is already 25% lower than the rate being paid by High Mannor to block layers in 2015).

Panel – accreditation, sizing and strength

- A review of the panel production status raised concerns of the panels having insufficient density and compressive strength and being difficult to stack.
- As a first step it was arranged to have the panels accredited which was successfully completed on the 22nd April by Wilkie Civil Engineering.
- With improvements to the production process, panels that have been tested have substantially exceeded the required density and compression strength test.
- Quotes have been obtained to make some final modifications to the moulds.

Key Measures taken to date

Review of fixed asset register and existing financing arrangements

- A review of High Mannor fixed assets showed a confusing picture on ownership of some of the older pieces of equipment. The newer equipment is mainly “owned” by Civex (the wholly owned subsidiary of High Mannor) under bank or finance company arrangements or leased from third parties.
- The issue with the older equipment stems from poor records from the periods prior to Battalion’s involvement. Often it is unclear whether the owner of the equipment is High Mannor or the founder of High Mannor, Danny Murphy.
- With respect to the newer equipment, the issue is that the current monthly finance / lease payments of approximately A$60k represent a major cash outflow each month. High Mannor is looking at selling those assets not currently essential to the business.
- This review includes looking at how to rationalise the transportation operations, including selling vehicles and reducing the number of drivers. However, the market for selling vehicles is difficult at the moment and, in some cases, the estimated resale value may be less than the outstanding amount due under the relevant lease. Therefore decisions will need to be taken on a case by case basis on what is the correct short term approach.
- Discussions are ongoing with transportation companies to provide outsourced transportation alternatives to High Mannor at pre-agreed rates. This will at least allow management to benchmark these costs against the current in-house operation and decide on the most cost effective approach and level of vehicle ownership.

Key Measures taken to date

Production of regular, accurate financial and management information and forecasts

- One of the biggest challenges previously has been the ability to accurately, and on a timely basis, monitor the performance of the different functions within the business with a view to reacting quickly to actual circumstances and also forecasting future cashflow requirements.
- A detailed monthly management accounting model is being put together which attempts to accurately split out the various different functions and monitor performance. In addition, a cashflow model is being put together that will tie into the individual job analysis as well as covering non-job specific items, as well as equipment finance payments.
- This management accounting model will enable us to understand the cost trends (as focus continues on reducing variable costs – such as cost of block production) as well as looking at how fixed costs can be lowered to reflect the ability of the business to cover these costs.
- The cashflow model will be updated on a regular basis to reflect actual performance at each of the individual active jobs, as well as adjusting for future job scheduling based on the latest expected job timetable. This job scheduling will also be used to instruct the quarry of the required number of blocks (and in time, panels) needed so that the quarry production can be adjusted to reflect needs as part of inventory management.
- Whilst work is ongoing to fine tune the information available to management, this has already improved considerably and has enabled High Mannor to successfully predict and manage its working capital position over the past couple of months.
- Currently, a total of A$600k is outstanding under the working capital financing provided to High Mannor provided to replace the Tim Robins receivables facility.
- Due to the payment terms with sub-contractors, High Mannor's working capital requirements increase as the volume of business increases (with on average suppliers being paid 1 month before High Mannor receives payment) and therefore it is likely that some further working capital support will be required within the next few months as the volume of business increases.

Restructuring of High Mannor / Battalion
– implications for Leed and its shareholders

Proposed restructuring of High Mannor and Battalion

Current financial position necessitates a major capital restructuring

- The existing debt obligations of both High Mannor and Battalion are not sustainable. The convertible loan notes at both companies mean that currently there is over A$5million of secured debt.
- Efforts are being made to improve the High Mannor's performance, with early signs of success, but clearly even in this scenario a debt restructuring needs to be completed in order to place the business on a stronger footing to move forward.
- Ultimately future profit and value creation will require the successful roll-out of panels and may require further funding to cover any additional capital requirements. This will not be possible under the current capital structure.
- The board of High Mannor is obtaining an independent valuation of the business as a pre-cursor to exploring restructuring alternatives with stakeholders. It is likely that the result of this process will be a debt for equity conversion at High Mannor (and Battalion) and as a consequence this will mean that the secured note holders (such as Leed) will end up owning a substantial majority of the business.

Implications for Leed and its shareholders

- As a result of any debt for equity conversion, it is likely that Leed will end up as the largest single shareholder in Battalion and in turn the Australian operations.
- Whilst the need for this restructuring has obviously meant that Leed has not been able to complete the targeted RTO, it does not necessarily represent a negative development for Leed (and its shareholders) in the longer term.
- The Board remain confident that the underlying business proposition offered by the wall panels is strong and the issues to date have mainly been due to poor implementation, which is now being addressed by the change in management at High Mannor.
- The Board is also focused on options to provide liquidity for its shareholders and believe there are a number of alternatives that can be pursued.

Future value creation and liquidity options

Focusing on the business will create value and provide liquidity options

- Whilst the Board fully understands, and shares, the disappointment that issues at High Mannor have resulted in the expected delisting of Leed, we are of the strong view that it was not in the interest of shareholders for the Board to try and push ahead with an RTO at this time.
- The costs involved in an RTO are substantial, as the process is by and large identical to undertaking an IPO. If the Board had pursued the RTO it would therefore have required a capital raise which, assuming it was successful, would almost certainly have resulted in substantial dilution for existing Leed shareholders.
- The decision was taken to avoid a highly dilutive capital raise at this juncture and to focus Leed's existing cash to support High Mannor and increase its stake in the business, which could ultimately lead to a controlling position.
- Once High Mannor has been restructured, and the issues in the business have been fully addressed, it is expected that there will be a number of liquidity alternatives on more attractive terms, such as:
  - Re-admission to AIM through an IPO
  - Listing on an alternative stock exchange (such as the Australian Stock Exchange); or
  - Merger / trade sale
- However we understand that certain Leed shareholders may be uncomfortable with holding a position in an unlisted entity and, as such, the Board are looking into alternative options for providing short term liquidity for these shareholders.
- The Board will provide shareholders with a further update prior to the middle of August, including details of any liquidity arrangements that have been arranged.
- Following a delisting, the Board will also undertake to continue to provide regular updates to the shareholders via the Leed website.