Phronimos Capital Urges Polo Resources Limited to Buy Back Shares at 12p per share

January 28, 2019--Phronimos Capital, LLC, acting on behalf of beneficial shareholders of Polo Resources Limited (“Polo” or the “Company”) (LON: POL), transmitted a letter to the Board of Directors (the “Board”) of the Company that includes a proposal to **return capital to shareholders via a tender offer at 12p per share**--a roughly 200% premium to Polo’s current stock price.

The full text of the letter follows:

January 28, 2019

Polo Resources Limited
Craigmuir Chambers, P O Box 71
Road Town, VG1110
British Virgin Islands

To the Board of Directors:

Clients of Phronimos Capital, LLC (“Phronimos”) are shareholders of Polo Resources Limited (“Polo”). As you are aware, Polo shares have traded at a roughly 75% discount to its net asset value (“NAV”) over the past year. Furthermore, since Michael Tang became the largest shareholder and Chairman of Polo in May 2013, shareholders have seen a decline of more than 80% in Polo’s stock price and a diminution of its NAV per share by two-thirds. We are writing to outline several proposals that we believe will be beneficial to all shareholders.

1) **Return capital to shareholders via a tender offer at 12p per share**

The persistently large discount of Polo’s stock price to net asset value precludes shareholders from realizing anything remotely close to its fair value through open-market transactions. Consequently, we believe the next logical step to protect and unlock shareholder value entails **a tender offer at 12p per share.** Funds for the return of capital can be sourced from a complete or partial divestment of Polo’s successful investment in publicly listed Hibiscus Petroleum, which is currently worth roughly two times Polo’s market value. For instance, the sale of a mere one-third of Polo’s stake in Hibiscus at current prices would allow the company to repurchase 20% of the shares outstanding at 12p—a price that should be accretive to NAV (currently 15.5p) while simultaneously rewarding shareholders with a buyback at a roughly 200% premium to Polo’s current stock price. We believe there will be broad shareholder support for a significant voluntary cash tender offer or buyback. Should the significant gap between market price and NAV persist, additional capital should be returned to shareholders in the near term via buybacks, tenders offers, or in-specie distributions of Hibiscus shares.

2) **Refrain from dilutive share offerings or option grants**

We do not begrudge management teams being generously compensated when they have helped to create shareholder wealth. While Polo shareholders have witnessed an approximately 80% decline in the share price and received no dividends or return of capital over the past 5 years, Chairman Tang has received ~$1 million per year in consulting fees from Polo Resources and its investee company GCM resources. Furthermore, in 2018, the issuance of equity options at a more than 70%

discount to NAV had the effect of diluting the investment of shareholders other than Chairman Tang. If we estimate the fair value of the option grant using NAV, as opposed to the Black-Scholes model, the total FY 2018 compensation expense for the Chairman would have approximated $2 million. At the current level of compensation, Chairman Tang's total compensation for fiscal years 2018 through 2020 would total ~$6 million or more than 35% of Polo's current market capitalization.

3) **Cease new investments in resource exploration companies that lack the balance sheet wherewithal to fund their capital expenditure needs.**

Phronimos has studied the returns of publicly traded natural resource companies across the globe from 2005-2018 and the results indicate that shareholder returns from resource companies with assets producing free cash flow were more than quadruple their free-cash-flow-negative counterparts. This empirical study, combined with the anecdotal evidence from Polo's investments in the junior resource exploration companies that resulted in the aforementioned two-thirds decline in NAV since May 2013, leads us to conclude that there are better alternatives to deploying capital in resource companies that lack the balance sheet wherewithal and near-term free-cash-flow generation to fund their capital expenditure needs.

We trust that the Board will take our proposals seriously. While the decision to return capital initially rests with the Board, shareholders like clients of Phronimos ultimately have other means to effect the changes necessary to protect their investments. We are prepared to work with other concerned shareholders should it become necessary. Disputes with incumbent Board members can be burdensome and we sincerely hope that one will not be necessary here. Shareholders have already suffered enough and we look forward to a new phase focused on returning capital to shareholders.

Sincerely,

Sam John, CFA
Managing Member of Phronimos Capital, LLC

About Phronimos Capital, LLC:

Phronimos Capital, LLC, is an investment advisory firm that seeks to earn above-average, long-term returns through fundamental and/or quantitative research focused on identifying deep-value investments across the globe.

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SOURCE: Phronimos Capital, LLC