# FRESHTEL HOLDINGS LIMITED

# (TO BE RENAMED 'FIELD SOLUTIONS HOLDINGS LIMITED')

# ACN 111 460 121

# NOTICE OF GENERAL MEETING

Notice is given that the Meeting will be held at:

**TIME**: 11:00 AM (AEDT)

**DATE**: 13 March 2017

**PLACE**: Hall Chadwick Offices, No 2 Park St, Sydney 2000

***The business of the Meeting affects your shareholding and your vote is important. This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisors prior to voting.***

***INDEPENDENT EXPERT'S REPORT: Shareholders should carefully consider the Independent Expert's Report prepared by PKF Corporate Finance Pty for the purposes of the Shareholder approval required by Section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of Resolution 3 to the non-associated Shareholders and concludes it is FAIR AND REASONABLE to the non-associated Shareholders.***

***The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 11:00 AM (AEDT) on 11 March 2017.***

# BUSINESS OF THE MEETING

## AGENDA

### 1. RESOLUTION 1 – CHANGE TO NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purpose of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities resulting from Settlement of the acquisition of Field Solutions Group Pty Ltd as described in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### 2. RESOLUTION 2 – CONSOLIDATION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to* and conditional on *the passing of all Acquisition Resolutions, pursuant to section 254H of the Corporations Act, ASX Listing Rule 7.20 and for all other purposes, the issued capital of the Company be consolidated on the basis that:*

*(a) every 50 Shares be consolidated into one (1) Share; and*

*(b) every 50 Options be consolidated into one (1) Option,*

*and, where this Consolidation results in a fraction of a Share or an Option being held, the Company be authorised to round that fraction down to the nearest whole Share or Option (as the case may be)."*

### 3. RESOLUTION 3 – ISSUE OF CONSIDERATION SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for:*

*(a) the Company to issue 185,714,286 Shares (on a post-Consolidation basis) to the Vendor; and*

*(b) the acquisition of a relevant interest in the issued voting shares of the Company by the Vendor otherwise prohibited by section*

*606(1) of the Corporations Act by virtue of the issue of Shares (**Voting Acquisition**),*

*on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: No votes may be cast in favour of this Resolution by:

(a) the person proposing to make the acquisition and their associates; or

(b) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by the Vendor and any of their associates.

**Expert's Report**: Shareholders should carefully consider the Independent Expert's Report prepared for the purpose of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this Resolution to the non-associated Shareholders in the Company. The Independent Expert has determined the issue of the Consideration Securities to the Vendor and the resulting Voting Acquisition is **fair and reasonable** to the non-associated Shareholders.

## 4. RESOLUTION 4 – CAPITAL RAISING PURSUANT TO A PROSPECTUS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 133,333,333 Shares (on a post-Consolidation basis) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 5. RESOLUTION 5 – ELECTION OF DIRECTOR – ANDREW ROBERTS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purpose of clause 13.4 of the Constitution and for all other purposes, Andrew Roberts, being eligible and having consented to act, be elected as a director of the Company on and from Settlement of the Acquisition."*

## 6. RESOLUTION 6 – ELECTION OF DIRECTOR – WAYNE WILSON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purpose of clause 13.4 of the Constitution and for all other purposes, Wayne Wilson, being eligible and having consented to act, be elected as a director of the Company on and from Settlement of the Acquisition."*

## 7. RESOLUTION 7 – CHANGE OF COMPANY NAME

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 157(1)(a) and for all other purposes, approval is given for the name of the Company to be changed to 'Field Solutions Holdings Limited'."*

## 8. RESOLUTION 8 – ISSUE OF FACILITATOR SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 4,000,000 Shares (on a post-Consolidation basis) to the Facilitators of the Acquisition (or their nominees) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 9. RESOLUTION 9 – ISSUE OF DIRECTOR SHARES – DR KEN CARR

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 2,000,000 Shares* (on a post-Consolidation basis) *to Dr Ken Carr (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by Dr Ken Carr or his nominee/s) and any of their associates (**Resolution 9 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or, provided the Chair is not a Resolution 9 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**
A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

(a) the proxy is either:
   (i) a member of the Key Management Personnel; or
   (ii) a Closely Related Party of such a member; and
(b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 9 Excluded Party, the above prohibition does not apply if:

(a) the proxy is the Chair; and
(b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

## 10. RESOLUTION 10 – ISSUE OF DIRECTOR SHARES – MR PETER BUTTERY

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 2,000,000 Shares* (on a post-Consolidation basis) *to Mr Peter Buttery (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by Mr Peter Buttery (or his nominee/s) and any of their associates (**Resolution 10 Related Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or, provided the Chair is not a Resolution 10 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**
A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

(a) the proxy is either:
   (i) a member of the Key Management Personnel; or
   (ii) a Closely Related Party of such a member; and
(b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 10 Excluded Party, the above prohibition does not apply if:

(a) the proxy is the Chair; and
(b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

## 11. RESOLUTION 11 – ISSUE OF DIRECTOR SHARES – MR MITHILA NATH RANAWAKE

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 2,000,000 Shares* (on a post-Consolidation basis) *to Mr*

*Mithila Nath Ranawake (or his nominee/s) on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by Mr Mithila Nath Ranawake (or his nominee/s) and any of their associates (**Resolution 11 Excluded Party**). However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or, provided the Chair is not a Resolution 11 Excluded Party, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:**
A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

(a) the proxy is either:

(i) a member of the Key Management Personnel; or

(ii) a Closely Related Party of such a member; and

(b) the appointment does not specify the way the proxy is to vote on this Resolution.

Provided the Chair is not a Resolution 11 Excluded Party, the above prohibition does not apply if:

(a) the proxy is the Chair; and

(b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

**Dated: 9 February 2017**

**By order of the Board**

**Graham Henderson**
**Company Secretary**

### Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

### Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

***Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 3 9946 5345.***

## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

Resolutions 1 to 6 are Acquisition Resolutions. If any one of the Acquisition Resolutions are not approved at the Meeting, none of them will take effect and the Agreement and other matters contemplated by those Resolutions will not be completed.

## 1. PROPOSED ACQUISITION OF FIELD SOLUTIONS GROUP PTY LTD

### 1.1 Background

The Company is an Australian public company, incorporated on 20 October 2004 and listed on the Australian Securities Exchange on 20 October 2004 (ASX: FRE).

Freshtel has been providing voice over internet protocol (**VoIP**) based phone services, also known as internet phones, for several years now both nationally and internationally. The Company's operation of its Voice Over Internet Protocol (**VOIP**) business has been leased to another company since December 2010. The Board's sole focus has been to identify a future business to provide both existing and new Shareholders with an attractive business.

As announced on 23 November 2016, the Company has entered into a binding heads of agreement (**Agreement**) with Convergent Technology Holdings Pty Ltd. (**Vendor**) pursuant to which the Company has agreed, subject to the satisfaction of certain conditions precedent, to acquire 100% of the shares in Field Solutions Group Pty Ltd (**FSG**) (**Acquisition**).

The current shareholder of FSG as at the date of this Notice is Convergent Technology Holdings Pty Ltd (**Convergent**).

FSG is a licenced Australian Telecommunications Carrier and provider of cloud computing infrastructure, applications and services, primarily to customers mainly in regional Australia.

Convergent, which 100% owns the Vendor, is a private company controlled by Mr Andrew Roberts, a proposed new Director of the Company and his wife, Ms Wendy Tyberek.

A description of its business and products of FSG is set out in Section 1.2.

For further details of the terms of the Agreement to complete the Acquisition, refer to Section 1.7.

A summary of the Resolutions is as follows:

(a) as the Company has been a telecommunications company, the Acquisition, if successfully completed, will represent a significant change in the nature or scale of the Company's operations to a technology/telecommunications company, for which Shareholder approval is required under ASX Listing Rule 11.1.2 (Resolution 1);

(b) the Company's issued capital being consolidated on a 50:1 basis (**Consolidation**) (Resolution 2);

(c) the issue at Settlement of 185,714,286 Shares (**Consideration Shares**) (on a post-Consolidation basis) to the Vendor;

(d) the Company will need to re-comply with Chapters 1 and 2 of the ASX Listing Rules and, to achieve this, must successfully undertake a capital raising by issuing not less than 100,000,000 Shares at $0.03 per Share (on a post-Consolidation basis) to raise at least $3,000,000 (**Minimum Subscription**) and up to 133,333,333 Shares at $0.03 per Share (on a post-Consolidation basis) to raise up to $4,000,000 (**Maximum Subscription**) via a prospectus (**Capital Raising**) (Resolution 4);

(e) in connection with the Acquisition, the appointment of two Proposed Directors to the Board, being Messrs Andrew Roberts and Wayne Wilson (Resolutions 5 and 6);

(f) the change of the Company's name to "Field Solutions Holdings Limited" with effect from Settlement (Resolution 7);

(g) the issue of up to 4,000,000 Shares (on a post-Consolidation basis) (**Facilitator Shares**) to Patersons Securities Limited (**Facilitators**) (Resolution 8); and

(h) the issue of up to 6,000,000 Shares (on a post-Consolidation basis) (**Director Shares**) to existing Directors of the Company (Resolutions 9, 10 and 11).

## 1.2 About FSG

### (a) General

FSG is an Australian proprietary company registered and operating in Tasmania.

FSG was founded in 2012, with the aim of providing cloud applications and connectivity to non-office based workers. As the business grew, it has focused on providing cloud services and telecommunications services to clients in regional Australia. The business of FSG is focussed on providing cloud computing infrastructure, applications and services, cloud hosting services and engineering and delivering broadband solutions.

### (b) FSG Products

FSG brings together all the components that make up the cloud technology environment including cloud computing, cloud application development, cloud software development and telecommunications expertise.

FSG offers the following services to its clients:

#### (i) Managed Services

FSG is a licensed Australian Telecommunications Carrier accredited to ISO 9001 and ISO 27001. It has established a good presence in regional NSW, Sydney metropolitan area and Tasmania. With the availability of further financial backing, FSG expects to continue to increase its network presence and customer acquisition.

FSG provides services to customers including local government organisations such as Hornsby Shire Council and Coffs Harbour City Council, State government organisations including NSW Transport for NSW and Hydro Tasmania, National organisations such as Surf Life Saving Australia, and educational institutions such as Sydney University.

While FSG's performance in standard telecoms Managed Services is at par with other similarly sized providers, its specialty comes through innovative, end-to-end cloud solutions. This is a powerful value proposition to customers. FSG is continuing to build on its long experience, reputation and ICT technology expertise to increase customer acquisition particularly in Regional areas. Service standards are continually being upgraded with a view to making it a key selling factor for FSG.

(ii) **Telecommunications**

FSG is fully licensed Australian Telecommunications Carrier. FSG is both ISO 27001 and ISO 9001 accredited. FSG also provides a range of VOIP and Data services. FSG provides wholesale and retail telecommunications services via its own network (trading as JUST ISP) to regional Australia. It provides residential, business and community services and has clients in Tasmania, Victoria, NSW and QLD, and national clients of the cloud services, including regional and state government organisations.

(iii) **Software**

A key part of FSG's value proposition lies in its expertise in designing and building customer software systems for customers. FSG has been delivering and maintaining innovative software products and solutions as well as software upgrades, maintenance, and support for over 10 years. FSG's in-house software development capabilities allows them to deliver innovative, customised and cost effective software solutions to Customers. Key Customers include Surf Life Saving Australia and Sydney University. Strategy for 2017 is to expand the Customer base further in the larger Corporate and Government sectors.

FSG also provides specialised cloud application development and maintenance for its clients and currently provides this services to a range of governmental and commercial clients. Providing a solid and profitable recurring income stream. FSG has also produced a number of cloud applications aimed at non-office based workers. Field Audit, a mobile inspection and auditing tool, and Field Entry a remote location site access and tracking tool.

(iv) **Cloud Services**

FSG's cloud services are best defined as managed cloud services that address the challenges faced by today's organisations, both corporate and government, in managing their portfolio of mission-critical applications.

FSG delivers cloud based hosting and tools to provide an internal IT department with a suite of cloud services to manage their day to day hosting, security and infrastructure needs. All these tools are delivered over the FSG private network.

FSG's cloud hosting services assumes complete responsibility for any mission critical application. Its hosting services are managed application services that address the challenges faced by today's leading organisations, both corporate and government in managing their portfolio of mission-critical applications.

FSG cloud transition services guides customers on their transition to the cloud. FSG offer specialised services around Amazon Web Services (AWS), Google Cloud Platform, Microsoft Azure, technology solutions, as well as private, public and hybrid cloud solutions.

Once transitioned, FSG provides the customer's IT team with a set of tools to manage its business in the cloud. FSG will ensure key business functions can be managed in the Cloud, including:

(A) cloud infrastructure;

(B) email and messaging;

(C) back-ups;

(D) disaster recovery; and

(E) security.

(c) **Intellectual Property**

FSG provides bespoke development services for clients and retains some elements of Intellectual Property primarily in the field mobile audit space where it provides this product to field operatives for asset management. Additionally, FSG have intellectual property associated with remote site access management. There are no patents or patents applied for.

(d) **Research and Development**

To the extent possible, FSG develops new and innovative software for use in cloud and communications technology, and provides this as a service to key clients. Some of this can be categorised as unique Research and Development.

## 1.3 FSG's Business Model

(a) **Market**

FSG recognised the importance of the emerging digital, sharing, interconnected economy and has strived to develop relevant products and services for customers to leverage its deep experience and strengths in ICT technologies. It has carved out a sound position in its chosen customer verticals with a growing presence in regional Australia.

FSG primarily operates in cloud technology sector of the telecommunications industry by offering end-to-end solutions, from concept and strategy, to design, implementation and support. This sector is characterised by many service providers competing in a market where providing sound customer solutions which are reliable, secure and affordable is key. Due to the competitive nature of the industry, establishing clear leadership and reputation in service provision, innovation and establishing preferred customer relationships remain the main challenges.

(b) **FSG Sales and Marketing**

FSG has primarily a direct sales model and also works through a small but growing number of resellers in regional Australia. FSG's carrier business operates both a direct, wholesale and government sales and marketing approach.

FSG has been in the managed services sector since its inception and has built up a line of business providing various service offerings with revenue of over $3,000,000 per annum. FSG will continue to focus on educating the regulators and the marketplace on benefits of adopting cloud based strategies particularly in regional Australia. It is a very competitive segment of the market, however by adopting strategies which target high value customers with the right service and value proposition will bring continuing rewards.

FSG has been delivering and maintaining innovative software products and solutions (revenue in excess of $2,000,000 per annum) as well as software upgrades, maintenance, and support for over 10 years. FSG will continue to innovate its offerings to customers which will allow them to stay at the cutting edge of cloud technology solutions.

(c) **Customers**

Key clients include State and Local Government and higher education sectors, in addition to larger organisations including, but not limited to, Surf Life Saving Australia and Hydro Tasmania. A strong focus on regional Australia, has brought in Hornsby Shire Council and Coffs Harbour Council and the focus ongoing will be on expanding regional activity.

(d) **Product Development**

With a highly experienced and innovative team, FSG will continue to develop specialised cloud based products for its chosen customers and markets. Its products and services are designed and tested in Australia, and developed offshore in India with a partner company. So far this has resulted in the development of products such as the Field Audit and Asset Management tool used by a range of clients, and a custom development capability for bespoke applications.

## 1.4 Key contracts

No single customer contract represents more than 18% of revenue, with a number of customers with long term ongoing relationship with FSG, resulting in a balanced and sustainable business model.

## 1.5 Industry

FSG operates in the telecommunications industry which is characterised by high levels of market concentration with the three main industry players (Telstra

Corporation Limited, SingTel Optus Pty Limited, Vodafone Hutchinson Australia Pty Limited) accounting for some 90% of industry revenue. Apart from the leaders, the industry is characterised by many medium sized and smaller niche service providers.

FSG has a key focus on business-to-business cloud based solutions and providing services to customers in regional Australia. FSG provide services to customers including local government organisations such as Hornsby Shire Council and Coffs Harbour City Council, State government organisations including Transport for NSW and Hydro Tasmania, national organisations such as Surf Life Saving Australia, and educational institutions such as Sydney University.

## 1.6 Financial position

For more information in respect of the historical financial position of FSG refer to Section 5.6 and 5.7 of the Independent Expert Report.

## 1.7 Terms of Agreement

As set out in Section 1.1, the Company has entered into the Agreement with the Vendor to acquire 100% of the issued shares in FSG.

Set out below is a summary of the key terms of the Agreement:

(a) (**Consideration**): Subject to satisfaction or waiver of Conditions Precedent (summarised in Section 1.7(b) below) , in consideration for acquiring 100% of FSG's shares, the Company has agreed to issue, at Settlement, 185,714,286 Shares (on a post-Consolidation basis) (**Consideration Shares**).

(b) (**Conditions Precedent**): The conditions precedent which must be satisfied (or waived) prior to the Company completing the Acquisition include:

(i) completion of due diligence by the Company on FSG's business, assets, operations, financial position, financial performance and any further matters relevant to the Company, to the absolute satisfaction of the Company;

(ii) completion of due diligence by FSG on the Company's business, assets, operations, financial position, financial performance and any further matters relevant to FSG, to the absolute satisfaction of FSG;

(iii) the Company, FSG and the Vendor entering into a formal share sale agreement;

(iv) FSG and each of its operating subsidiaries delivering to the Company audited accounts for the shorter period of three years and the date of incorporation of the relevant company;

(v) the Company completing a capital raising of not less than $3,000,000, through the issue of not less than 100,000,000 at an issue price of $0.03 each (on a post-Consolidation basis) (**Capital Raising**);

(vi) the Company obtaining all necessary shareholder approvals pursuant to the Corporations Act, the ASX Listing Rules or any other relevant law to allow the Company to lawfully complete the matters set out in the Agreement, including, without limitation:

(A) ASX Listing Rules approval and, if required, approval for the purpose of the Corporations Act, for the issue of the Consideration Shares to the Vendor;

(B) ASX Listing Rule approval and, if required, approval for the purpose of the Corporations Act, for the issue of the Shares pursuant to the Capital Raising;

(C) ASX Listing Rule approval and, if required, approval for the purpose of the Corporations Act, for the issue of the Facilitator Shares and Directors Shares (as defined in Section 1.1(f));

(D) if required, ASX Listing Rule 11.1.2 approval authorising a change of nature and scale of activities of the Company;

(E) approval and execution of a consolidation of the capital of the Company on the basis of a ratio of 50 for 1 (**Consolidation**);

(F) election of two directors of the Company nominated by the Vendor; and

(G) such other approvals as may be identified as necessary as a result of the due diligence;

(vii) if required, the Company obtaining an independent expert's report to discharge its obligations under section 611(7) of the Corporations Act;

(viii) the Company obtaining all necessary third party approvals or consents to give effect to the matters set out in the Agreement to allow the Company to lawfully complete the matters set out in the Agreement; and

(ix) the Company obtaining all necessary regulatory approvals pursuant to the ASX Listing Rules, Corporations Act or any other law to allow the Company to lawfully complete the matters set out in the Agreement, including but not limited to, approval to reinstatement to official quotation on ASX on conditions satisfactory to the Company acting reasonably,

(together, the **Conditions Precedent**).

(c) (**End Date**): If the Conditions Precedent are not satisfied (or waived) on or before 5:00pm (WST) on 31 March 2017, the parties may be released from their future obligations under the Agreement, unless otherwise mutually agreed in writing by the parties.

(d) (**Settlement**): Settlement of the Acquisition (**Settlement**) will occur on that date which is 2 business days after the satisfaction (or waiver) of all Conditions Precedent (or such other date as agreed between the Company and FSG) (**Settlement Date**).

(e) (**Board Composition**): On Settlement, the board of the Company will consist of no more than four (4) persons, consisting of:

(i) Mithila Nath Ranawake and Ken Carr, being nominees of the Company; and

(ii) Andrew Roberts and Wayne Wilson, being nominees of FSG.

(f) (**Facilitator and Director Shares**): At Settlement, the Company will also issue (on a post-Consolidation basis):

(i) up to 4,000,000 Shares to the Facilitators (**Facilitator Shares**); and

(ii) up to 6,000,000 Shares to existing directors of the Company (**Director Shares**).

The issue of the Facilitator Shares and Director Shares will be subject to the recipient providing a duly executed restriction agreement where required by ASX in accordance with the ASX Listing Rules.

(g) (**Break Fees and Lock-up Devices**): There are no break fees or other lock-up devices contemplated in the Agreement.

### 1.8 Re-compliance with Chapters 1 and 2 of the Listing Rules

Given that the Company is proposing to make a change in the scale of its activities by acquiring the issued share capital of FSG, the Company is required to re-comply with Chapters 1 and 2 of the ASX Listing Rules prior to the Company completing the Acquisition.

For this purpose, the Company will be required to re-comply with the conditions to listing on ASX set out in Chapters 1 and 2 of the ASX Listing Rules in order to achieve Settlement and before it can be re-instated to trading on ASX following Settlement.

ASX Listing Rule 2.1 Condition 2 provides that it is a condition of quotation of the main class of a company's securities of an entity seeking admission to ASX that the issue price of the securities for which the company seeks quotation must be at least 20 cents in cash. In addition, ASX Listing Rule 1.1 Condition 11 provides that for an entity to be admitted to the official list, the exercise price for any options on issue must be at least 20 cents in cash.

The Company is seeking a waiver from the requirements outlined above to enable the Company to issue securities for the purpose of satisfying ASX Listing Rule 2.1, Condition 2 at $0.03 per Share (on a post-Consolidation basis), with all Options issued or to be issued having an exercise price of not less than $0.02. This waiver is subject to Shareholders approving the Company undertaking the Capital Raising at $0.03 (on a post-Consolidation basis) and the exercise price of the Options issued being $0.125 per Option (on a post-Consolidation basis).

### 1.9 Consolidation

The Company proposes to undertake the consolidation of its issued capital on the basis of 1 Security for every 50 Securities held, as set out in further detail in Section 3 (**Consolidation**).

Approval for the Consolidation is the subject of Resolution 2.

## 1.10 Capital Raising

For the purposes of re-complying with Chapters 1 and 2 of the ASX Listing Rules and in order to meet the conditions of the Agreement, the Company proposes to conduct a capital raising to raise up to $4,000,000 (before costs) (**Capital Raising**) via the issue of up to 133,333,333 Shares at an issue price of $0.03 per Share (on a post-Consolidation basis). The Capital Raising will be conducted under a prospectus to be prepared by the Company.

Approval for the issue of Shares pursuant to the Capital Raising is the subject of Resolution 4.

Patersons Securities Limited (ACN 008 896 311) (AFSL: 239052) (**Patersons**) will act as lead manager to the Capital Raising.

## 1.11 Change of name

As a result of the Acquisition, the Company proposes to change its name to "Field Solutions Holdings Limited". Approval for the change of name is the subject of Resolution 7.

## 1.12 Pro-forma Capital Structure

The pro-forma capital structure of the Company following completion of the matters contemplated by the Resolutions is set out below:

| Shares | Minimum Subscription ($3,000,000) | Full Subscription ($4,000,000) |
|---|---|---|
| Shares currently on issue | 1,723,037,677 | 1,723,037,677 |
| Shares on a post-Consolidation basis (Resolution 2) | 34,460,754 | 34,460,754 |
| Shares to be issued pursuant to the Capital Raising (Resolution 4) | 100,000,000 | 133,333,333 |
| Consideration Shares (Resolution 3) | 185,714,286 | 185,714,286 |
| Director Shares (Resolutions 9 to 11) | 6,000,000 | 6,000,000 |
| Facilitator Shares (Resolution 8) | 4,000,000 | 4,000,000 |
| **Total Shares immediately following the Acquisition**[1] | **330,175,040** | **363,508,373** |

| **Options** | |
|---|---|
| Options currently on issue[1]<br>(quoted Options exercisable at $0.0025 on or before 30 September 2020) | 121,664,523 |
| Options post-Consolidation (50:1)<br>(quoted Options exercisable at $0.125 on or before 30 September 2020) | 2,433,290 |
| **Total Options immediately following the Acquisition[1]** | **2,433,290** |

**Notes:**

1. These include the sub-underwriter Options which were approved by Shareholders at the Company's annual general meeting held on 29 November 2016 and issued on 23 December 2016. It is intended that they will be offered under the Capital Raising prospectus to ensure that the Options, and any Shares issued on exercise of the Options, are not subject to any trading restrictions on the sale of those Options and Shares. These Options are not being issued in connection with the Acquisition.
2. Assumes no further securities are issued prior to completion of the matters the subject of the Resolutions, other than as set out in the table.

## 1.13 Changes in voting power and dilution of shareholdings

The relevant interests in the voting shares in the capital of the Company (both current, and following Settlement on a post consolidation basis) are set out in the tables below (Table 1 assumes that the Capital Raising is fully subscribed and Table 2 assumes the minimum subscription is met, both tables assume that no other Shares are issued or Options are exercised at the relevant time unless otherwise stated):

**Table 1: Full Subscription ($4,000,000)**

| Party | Relevant interest as at the date of this Notice (%) | Shares issued subject to proposed Resolutions | Total relevant interest following Settlement (%) | Dilution of shareholding (%) |
|---|---|---|---|---|
| Existing Shareholders | 100% | Nil | 9.48% | 90.52% |
| Investors in Capital Raising | Nil | 133,333,333 | 36.68% | Nil |
| Convergent Technology Holdings Pty Ltd | Nil | 185,714,286 | 51.09% | Nil |
| Directors | N/A[1] | 6,000,000[2] | 1.65% | Nil |
| Facilitator | Nil | 4,000,000 | 1.10% | Nil |
| **Total** | **34,460,754** | **329,047,619** | **100%** | **90.52%** |

**Notes:**

1. 1,602,829 Shares held by Mr Peter Buttery, being 4.65% of the current issued capital of the Company, have been included in the 100% relevant interest of Existing Shareholders.
2. 2,000,000 Director Shares proposed to be issued to Mr Peter Buttery pursuant to Resolution 10 are included in the 6,000,000 Director Shares.

**Table 1: Minimum Subscription ($3,000,000)**

| Party | Relevant interest as at the date of this Notice (%) | Shares issued subject to proposed Resolutions | Total relevant interest following Settlement (%) | Maximum dilution of shareholding (%) |
|---|---|---|---|---|
| Existing Shareholders | 100% | Nil | 10.44% | 89.56% |
| Investors in Capital Raising | Nil | 100,000,000 | 30.29% | Nil |
| Convergent Technology Holdings Pty Ltd | Nil | 185,714,286 | 56.25% | Nil |
| Directors | N/A[1] | 6,000,000[2] | 1.82% | Nil |
| Facilitator | Nil | 4,000,000 | 1.21% | Nil |
| **Total** | **34,460,754** | **295,714,286** | **100%** | **89.56%** |

**Notes:**

1. 1,602,829 Shares held by Mr Peter Buttery, being 4.65% of the current issued capital of the Company, have been included in the 100% relevant interest of Existing Shareholders.
2. 2,000,000 Director Shares proposed to be issued to Mr Peter Buttery pursuant to Resolution 10 are included in the 6,000,000 Director Shares.

If Resolutions 2 to 4 and 8 to 11 are passed, a total maximum of 329,047,619 Shares will be issued. This will increase the number of Shares on issue from 34,460,754 to 363,508,373 (assuming that no other Options are exercised, the Maximum Subscription under the Capital Raising is raised and no Shares other than those contemplated by the Resolutions of this Notice) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 90.52%.

## 1.14 Pro-forma statement of financial position

Set out in Schedule 1 is an unaudited pro-forma balance sheet of the Company assuming that all Acquisition Resolutions have been passed and Settlement has occurred and showing alternatively the Minimum and Maximum Capital Raising which is proposed to be $3,000,000 and $4,000,000 respectively. The historical and pro-forma information is presented in an abbreviated form, insofar as it does not include all of the disclosure required by the Australian Accounting Standards applicable to annual financial statements.

## 1.15 Indicative use of funds

Following Settlement of the Acquisition, the Company expects to use its cash funds as follows:

| Funds available | Minimum Subscription ($3,000,000) | Percentage of Funds (%) | Maximum Subscription ($4,000,000) | Percentage of Funds (%) |
|---|---|---|---|---|
| Existing cash reserves of the Company and FSG[1] | $270,652 | 8% | $270,652 | 6% |
| Funds raised from the Capital Raising | $3,000,000 | 92% | $4,000,000 | 94% |
| **TOTAL** | **$3,270,652** | **100.00%** | **$4,270,652** | **100.00%** |
| Increase Sales Activity | $500,000 | 15% | $650,000 | 15% |
| Increase network capability | $1,000,000 | 31% | $1,750,000 | 41% |
| Expenses associated with the Acquisition and Capital Raising | $530,000 | 16% | $590,000 | 14% |
| Working capital | $1,240,652 | 38% | $1,280,652 | 30% |
| **TOTAL** | **$3,270,652** | **100.00%** | **$4,270,652** | **100.00%** |

**Notes:**

1. These funds represent the estimated cash held by the Company and FSG as at the date of the Meeting.

Where more than the Minimum Subscription but less than the Maximum Subscription is raised the additional funds, after the increase in costs of the Capital Raising, will be allocated on a pro-rata basis to the other categories listed in the use of funds table.

The above table is a statement of current intentions as at the date of this Notice. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

Actual expenditure may differ significantly from the above estimates due to a change in market conditions, the development of new opportunities and other factors (including the risk factors outlined in Section 1.20).

## 1.16 Indicative timetable

An indicative timetable for Settlement of the Acquisition and the associated transactions is set out below:

| Event | Date |
|---|---|
| Company's Shares are suspended from Official Quotation on ASX | 6 October 2016 |
| Announcement of Acquisition | 23 November 2016 |
| Lodge Notice of Meeting with ASX and ASIC for review | 17 January 2017 |

| Event | Date |
|---|---|
| Notice of Meeting sent to Shareholders | 8 February 2017 |
| Lodgement of Capital Raising prospectus by the Company<br>Prospectus opens | 22 February 2017 |
| General Meeting held to approve the Acquisition<br>ASX notified whether Shareholder approval has been granted for the Consolidation | 13 March 2017 |
| Prospectus closes | 22 March 2017 |
| The last day for trading in pre-Consolidation securities | 22 March 2017 |
| Date that securities commence trading on a deferred settlement (post-Consolidation) basis | 23 March 2017 |
| Last day to register transfers on a pre-Consolidation basis | 24 March 2017 |
| First day for the Company to send notice to each security holder of the change in their details of holdings<br>First day for the Company to register securities on a post-Consolidation basis | 27 March 2017 |
| First day for issue of new holding statements | 28 March 2017 |
| Issue date – deferred settlement market ends<br>Last day for the Company to send notice to each security holder of the change in their details of holdings<br>Last day to send new holding statements and enter securities into the holders' security holdings | 31 March 2017 |
| Subject to Directors' satisfaction that the conditions precedent have been satisfied, settlement of the Acquisition<br>Issue of Consideration Shares<br>Issue of Shares pursuant to Capital Raising<br>Issue of Director Shares and Facilitator Shares | 7 April 2017 |
| Despatch of holding statements | 10 April 2017 |
| Commencement of trading of Shares on ASX (subject to the Company re-complying with Chapters 1 and 2 of the ASX Listing Rules and subject to ASX agreeing to reinstate the Company's Shares to quotation) | 18 April 2017 |

Please note this timetable is indicative only and the Directors reserve the right to amend the timetable as required.

## 1.17 Board and Management

In accordance with the terms of the Agreement, and with effect from Settlement, it is proposed that Peter Buttery will resign as a Director and Andrew Roberts and Wayne Wilson (**Proposed Directors**) will be appointed as additional directors to the Board of the Company. Mithila Nath (Matt) Ranawake and Ken Carr will remain in their existing roles following Settlement.

Summaries of the background and experience of each of the Proposed Directors is set out below.

**Andrew Roberts** *AICD*
*Proposed Director*

Mr Roberts is a business executive / entrepreneur with over 20 years' experience in the IT industry in Australia, New Zealand, Asia Pacific, and the United Kingdom. He has extensive strategic IT and commercial experience in business aggregation, business analysis/strategy, sales, marketing, professional services, operations and general management.

Mr Roberts has direct experience in building and growing IT and cloud-based companies from start-up to sale. He specialises in cloud strategy planning and execution. He has previously been a director of Comops Limited (ASX: COM) and was recently head of strategy and cloud operations at Rubik Financial Limited (ASX:RFL). Andrew was also the deputy chair of the Young and Well Cooperative Research Council, a federally funded not-for-profit organisation focusing on the use of technology to assist wellbeing in young people's lives.

Mr Andrew Roberts is a director and controlling shareholder of Convergent, which in turn owns a 100% interest in the issued capital of the Vendor.

**Wayne Wilson** *B Com (Melb), GradDipAppFin, GAICD*
*Proposed Director*

Wayne is the CEO of knowIT group and has over 29 years' experience in financial services in Australia, working across banking, platforms, asset management, AFSLs, private clients, superannuation, insurance and trustee services.

At knowIT group Mr Wilson's focus is on potential acquisitions, financial services strategy, product development and management, marketing and distribution.

His previous roles have included Managing Director, Wealth - Rubik Financial Limited (ASX:RFL), Head of Asgard and Advance Asset Management – Westpac, General Manager Wealth Distribution – St George Bank, Director of Distribution Asgard, Securitor, Licensee Select, IBS and Badges – Asgard, Group Executive Private Clients – Perpetual and Head of Marketing for Lend Lease Advisor Services, MLC Advisor Services, Apogee and Garvan Financial Planning – MLC.

### 1.18 Advantages of the proposals in the Acquisition Resolutions

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the Acquisition Resolutions:

(a) the Acquisition represents an attractive investment opportunity for the Company to change its business focus to that of a telecommunications, technology and cloud computing company. FSG currently hold all necessary Australian Government Telecommunications licenses which, combined with its software development and hosting skills, provides a unique opportunity to deliver all necessary elements to deliver a complete cloud services business model;

(b) the Acquisition of FSG will enable the Company to tap into the established nature of the FSG business;

(c) the Agreement requires the Company to complete a capital raising at \$0.03 per Share to raise not less than \$3,000,000 which will provide the Company with significant funds for development of the FSG business;

(d) the potential increase in market capitalisation of the Company following Settlement and the associated Capital Raising may lead to access to improved equity capital market opportunities and increased liquidity which are not currently present;

(e) the appointment of Andrew Roberts and Wayne Wilson provides the Company with extensive experience and a proven track record within the telecommunications, technology and cloud computing industry; and

(f) as detailed in Section 1.7, the consideration for the Acquisition is comprised of 185,714,286 Shares (on a post-Consolidation basis), thereby conserving the Company's cash reserves.

## 1.19 Disadvantages of the proposals in the Acquisition Resolutions

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the Acquisition Resolutions:

(a) the Company will be changing the nature of its activities to become a telecommunications, technology and cloud computing company, which may not be consistent with the objectives of all Shareholders;

(b) the Acquisition will result in the Capital Raising, the issue of the Consideration Shares, the issue of the Facilitator Shares and the issue of the Director Shares, all of which will have a dilutionary effect on the current holdings of Shareholders;

(c) there are additional risk factors associated with the change of nature and scale of the Company's activities. Some of the key risks are summarised in Section 1.20; and

(d) in connection with the Acquisition, the Company has been required to engage a number of advisors, lawyers and experts to facilitate and report on the Acquisition, which represents sunk, but necessary costs to the Company.

## 1.20 Risk factors

Shareholders should be aware that if the Acquisition is approved and completed, the Company will be changing the nature and scale of its activities and will be subject to additional or increased risks arising from FSG, parties contracted or associated with FSG and the Agreement and other agreements.

The risks and uncertainties described below are not intended to be exhaustive. There may be additional risks and uncertainties that the Company is unaware of or that the Company currently considers immaterial, which may affect the Company and FSG. Based on the information available, a non-exhaustive list of risk factors for the Company, associated with the Company's proposal to acquire all of the shares in FSG is set out below.

***Risks relating to the Change in Nature and Scale of Activities***

(a) **Re-Quotation of Securities on ASX**

The Acquisition constitutes a significant change in the nature and scale of the Company's activities and the Company needs to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the official list of ASX.

There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Securities on the ASX. Should this occur, the Securities will not be able to be traded on the ASX until such time as those requirements can be met, if at all. Security holders may be prevented from trading their Securities should the Company be suspended until such time as it does re-comply with the ASX Listing Rules.

(b) **Dilution Risk**

The Company currently has 34,460,754 Shares on issue (on a post-Consolidation basis). Upon Settlement of the Acquisition (assuming that the Capital Raising is fully subscribed and there are no further issue of Shares) a total of up to 185,714,286 Consideration Shares will be issued to the Vendor, up to 133,333,333 Shares will be issued to investors under the Capital Raising, up to 6,000,000 Shares will be issued to Directors and up to 4,000,000 Shares will be issued to the Facilitators, and:

(i) the existing Shareholders will retain approximately 9.48% of the Company's issued Share capital;

(ii) the Vendor will hold approximately 51.09% of the Company's issued Share capital;

(iii) investors under the Capital Raising will hold approximately 36.68% of the Company's issued Share capital;

(iv) Directors will hold approximately 1.65% of the Company's issued Share capital (including their existing shareholdings); and

(v) the Facilitators will hold approximately 1.10% of the Company's issued Share capital.

If the Options on issue or to be issued are exercised the holdings of the existing Shareholders in the Company will be further diluted.

There is also a risk that the interests of Shareholders will be further diluted as a result of future capital raisings required in order to fund the development of the FSG business.

(c) **Liquidity risk**

On Settlement, the Company proposes to issue the Consideration Shares to the Vendor , the Director Shares to Directors and the Facilitator Shares to the Facilitators (or their respective nominee/s). The Directors understand that ASX will treat the Consideration Shares, Director Shares and the Facilitator Shares as restricted securities in accordance with Chapter 9 of the ASX Listing Rules. As a significant number of the Company's Shares will be subject to escrow upon Settlement, there is an increased liquidity risk as a large portion of issued capital may not be able to be freely traded for a period of time.

(d) **Contractual Risk**

Pursuant to the Agreement, Settlement is subject to the fulfilment of certain Conditions Precedent, as identified in Section 1.7(b).

The ability of the Company to achieve its stated objectives will depend on the performance by the parties of their obligations under the Agreement. If any party defaults in the performance of their obligations, it may be necessary for the Company to approach a court to seek a legal remedy, which can be costly.

***Risks in respect of FSG's operations***

(a) **Increased Competition**

The Australian telecommunications services market is highly competitive. The industry is characterised by high levels of market concentration with the three main industry players (Telstra Corporation Limited, SingTel Optus Pty Limited, Vodafone Hutchinson Australia Pty Limited) accounting for some 90% of industry revenue. Apart from the leaders, the industry is characterised by many medium sized and smaller niche service providers.

Since deregulation in 1997 industry competition has significantly increased, saturating the market given the isolated and relatively small size of the Australian market. Whilst competition remains fierce industry competitors look to untapped and niche market segments in order to increase market share whilst differentiating product offerings to gain market share from competitors. Competitor consolidation remains a key industry characteristic.

Many existing service providers either compete directly or provide services that are potential substitutes for FSG services. New competitors, services, and business models that compete with FSG are likely to arise in the future. Many of these competitors may have substantially more resources than that of FSG.

Risks that an existing or potential new competitor may pose to FSG include:

(i) allocate significantly more resources to compete in the services or products FSG offer;

(ii) utilise a well-established brand to launch services that compete against FSG;

(iii) develop a lower cost or more effective business model, for example by developing or acquiring a more sophisticated technology platform and/or service delivery method;

(iv) utilise experience in other offshore markets where it operates to launch new services or products in Australia;

(v) respond faster or more effectively to changes in regulations, new technologies, or customer demands and requirements; and

(vi) develop new products or services that compete directly with FSG products and services.

An increase in competition due to any of these factors could result in FSG products and services becoming less attractive to its customers and potential new customers. This could result in FSG reducing the retention of existing customers, resulting in having to increase product development and marketing expenses or capital expenditure, reduce its selling prices, or change its business model to remain competitive. Any of these outcomes will have a potentially detrimental effect on FSG's profitability and financial performance.

(b) **Cyber Security**

Business reliance on the internet has grown exponentially over the past 20 years. With this growth, so has the threat of cyber security risks. Every aspect of business is reliant on some connection to the internet through an internet connected device or service. Most business to business transactions are now handled via the internet, including sales, customer service, and invoicing. Effectively, businesses will find it difficult to conduct business without the internet.

With the rapid growth of sophisticated software and hardware technology, cloud infrastructure, ever changing global standards and technical protocols, most small to medium sized companies have struggled to maintain control over their information from exposure to technology and cyber security risks and consequent loss or damage. The depth of expertise required to simply maintain a passing knowledge of, let alone control, rapid technology advancements in hardware, software and network infrastructure by in-house IT managers is so vast, companies have outsourced most aspects of information technology and telecoms infrastructure (IT&T) to external experts such as FSG.

FSG like all telecommunications industry competitors faces risks posed by cyber security issues. Cyber-attacks, data theft and hacking may lead to compromise or even breach of technology platforms used by FSG customers. It is possible measures taken by FSG, including firewalls, encryption of customer information and data location and service usage, privacy policy, and other policies to restrict and protect customer data and information against unauthorised access, will not be sufficient to prevent unauthorised access to or disclosure of, such confidential data and information by cyber hackers or potentially government agencies.

A risk remain that if a cyber-attack is successful, any data security breaches or FSG's failure to protect confidential information could result in FSG breaching its obligations under applicable law or customer contracts, each of which would have potentially materially adverse impact on FSG's reputation and financial performance.

(c) **Significant changes across the local government market restricting purchases**

It is clear that regional communities are not well served by established telecommunications carriers and service providers. FSG recognised this need and has well established commercial relationships with several city based and regional local government authorities and will continue to build on its strategy of expanding in regional Australia. Being a licenced Australian telecommunications carrier and accredited to ISO 9001 and ISO 27001 are key strengths assisting FSG with these customers, as well as being an innovator in telecommunications networking and cloud technology.

New South Wales State government launched a program to amalgamate several local councils across the State in 2016. While there has been a community backlash and court challenges against these amalgamations, and some back down by the State government evident, uncertainty on the future of some local government authorities is likely to persist. Within this environment, some local authorities may curtail their operational strategies including further development of their telecommunications and information technology requirements.

(d) The risk for FSG is in local government authorities delaying or cancelling intended contracts or issuing new tenders altogether. If this comes to pass, it would have a materially adverse impact on FSG revenue and profitability.

(e) **Reliance on sales & marketing success**

Following completion of the Capital Raising, the Company intends to fully commercialise FSG products by focussing on sales and marketing. There is no guarantee that FSG sales and marketing strategy will be successful. Even if FSG successfully commercialises its products, there is a risk that the Company may not generate sufficient revenue to cover its operating costs.

(f) **Intellectual property risks**

If FSG fails to protect its intellectual property rights adequately, competitors or potential competitors may gain access to its technology which could harm the FSG business. If any patents are granted in the future, they may not provide FSG with any competitive advantages, or may be challenged by third parties.

Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to FSG in every country in which its products are available. Accordingly, despite its efforts, FSG may not be able to prevent third parties from infringing upon or misappropriating its intellectual property.

FSG may be required to incur significant expenses in monitoring and protecting its intellectual property rights. It may initiate or otherwise be involved in litigation against third parties for infringement, or to establish the validity, of its rights. Any litigation, whether or not it is successful, could result in significant expense to FSG and cause a distraction to management. In addition, unauthorised use of the FSG brand in counterfeit products may result in potential revenue loss and have an adverse impact on FSG's brand value and perceptions of its product qualities.

For further information on the intellectual property rights held by the FSG, please refer to Section 1.2.

(g) **Reliance on key personnel**

The development of FSG's business has been largely due to the effort, experience and leadership of its management team. FSG is also dependent on the continued service of its existing development personnel because of the complexity of its technologies. Despite the Company's best efforts to attract and retain key personnel, there is no assurance that FSG or the Company will be able to retain the services of such persons. The Company's ability or inability to attract and retain key personnel could have a material effect upon the Company's business, results of operations and financial condition.

***General risks***

(a) **Risk of high volume of Share sales**

If Settlement occurs, the Company will have issued a significant number of new securities to various parties. Parties that receive Shares as a result of the Acquisition or the Capital Raising may not intend to continue to hold those Shares and may wish to sell them on ASX (subject to any applicable escrow period). There is a risk that an increase in the amount of people wanting to sell Shares may adversely impact on the market price of the Company's Shares.

It should be noted however that there will be mandatory escrow provisions invoked on the Consideration Shares, Director Shares and Facilitator Shares.

There can be no assurance that there will be, or continue to be, an active market for Shares or that the price of Shares will increase. As a result, Shareholders may, upon selling their Shares, receive a market price for their securities that is less than the price of Shares offered pursuant to the Capital Raising.

(b) **Trading price of Shares**

The Company's operating results, economic and financial prospects and other factors will affect the trading price of the Shares. In addition, the price of Shares is subject to varied and often unpredictable influences on the market for equities, including, but not limited to general economic conditions including, inflation rates and interest rates, variations in the general market for listed stocks in general, changes to government policy, legislation or regulation, industrial disputes, general operational and business risks and hedging or arbitrage trading activity that may develop involving the Shares.

In particular, the share prices for many companies have been and may in the future be highly volatile, which in many cases may reflect a diverse range of non-company specific influences such as global hostilities and tensions relating to certain unstable regions of the world, acts of terrorism and the general state of the global economy. No assurances can be made that the Company's market performance will not be adversely affected by any such market fluctuations or factors.

(c) **Future capital requirements**

Further funding may be required by the Company to support its ongoing activities and operations, including the need to develop new products, improve existing products, enhance its operating infrastructure and to acquire complementary businesses and technologies. Accordingly, the Company may need to engage in equity or debt financings to secure additional funds. There can be no assurance that such funding will be available on satisfactory terms (or at all) at the relevant time. Any inability to obtain additional funding (or inability to obtain funding on reasonable terms) will adversely affect the financial condition and financial performance of the Company.

(d) **Potential acquisitions risk**

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects although no such acquisitions or investments are currently planned. Any such transactions will be accompanied by risks commonly encountered in making such acquisitions.

(e) **Market conditions risk**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company'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 securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and technology stocks in particular.

(f) **General economic and political risks**

Changes in the general economic and political climate in Australia and on a global basis may impact on economic growth, interest rates, the rate of inflation, taxation and tariff laws, domestic security which may affect the value and viability of any activities that may be conducted by the Company.

(g) **Regulatory risk**

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

***Highly speculative investment risk***

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company, FSG or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and FSG and the value of the Company's securities. Therefore, the Shares to be issued by the Company carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares. Potential investors should consider that the investment in the Company is highly speculative.

## 1.21 Intentions if the Acquisition is not approved

If the Conditions Precedent to the Agreement are not satisfied or waived, including if all of the Acquisition Resolutions are not passed, the Acquisition will not proceed and the Company will be delisted by the ASX.

## 1.22 Directors' interests in the Acquisition

None of the Company's existing Directors have any interest in the proposed Acquisition pursuant to the Agreement.

Shareholders should note that, subject to all Acquisition Resolutions being passed, each of Dr Ken Carr, Mr Mithila Nath Ranawake and Mr Peter Buttery will receive Directors Shares.

## 1.23 Vendor

The Vendor is a related party of the Company by virtue of being controlled by Andrew Roberts, a Proposed Director.

The Vendor does not have an existing interest in the Company's securities separate from the Acquisition Resolutions and the Agreement.

## 1.24 Conditionality of Acquisition Resolutions

All Acquisition Resolutions are inter-conditional, meaning that each of them will only take effect if all of them are approved by the requisite majority of Shareholders' votes at the Meeting. **If any one of Resolutions 1 to 11 (inclusive) are not approved at the Meeting, none of them will take effect and the Agreement and other matters contemplated by the Resolutions will not be completed pursuant to this Notice.**

## 1.25 Directors' recommendation and voting intention

All of the Directors are of the opinion that the Acquisition is in the best interests of Shareholders and, accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Acquisition Resolutions. The Directors' recommendations are based on the reasons outlined in Section 1.18.

Each of the Directors intends to vote all of their Shares in favour of each of the Acquisition Resolutions in which they are entitled to vote.

### 1.26 Independent Expert's Report

The Independent Expert's Report (a copy of which is attached as Annexure A to this Explanatory Statement) sets out a detailed examination of the issue of the Consideration Shares to the Vendor to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 3.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 3 are fair and reasonable to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

The Independent Expert's Report is available on the Company's website at http://www.freshtelholdings.com.au. The Company will provide a hard copy of the Independent Expert's Report free of charge if requested.

## 2. RESOLUTION 1 – CHANGE OF NATURE AND SCALE OF ACTIVITIES

### 2.1 General

Resolution 1 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company as a result of the Acquisition.

As outlined in Section 1.7, the Company has entered into the Agreement to acquire all of the issued capital in FSG.

A summary of the terms and conditions of the Agreement is set out in Section 1.7 and a detailed description of FSG and its business is outlined in Sections 1.2 and 1.3.

Resolution 1 is subject to the passing of all other Acquisition Resolutions.

### 2.2 ASX Listing Rule 11.1

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature and scale of its activities, it must provide full details to ASX as soon as practicable and comply with the following:

(a) provide to ASX information regarding the change and its effect on future potential earnings, and any information that ASX asks for;

(b) if ASX requires, obtain the approval of holders of its shares and comply with any requirements of ASX in relation to the notice of meeting; and

(c) if ASX requires, meet the requirements of Chapters 1 and 2 of the ASX Listing Rules as if the company were applying for admission to the Official List of ASX.

Given the change in the nature and scale of the Company's activities upon Settlement of the Acquisition, the Company is required to obtain Shareholder approval.

Accordingly, the Company is seeking Shareholder approval pursuant to Resolution 1 for the Company to change the nature and scale of its activities under ASX Listing Rule 11.1.2.

### 2.3 Suspension until re-compliance with Chapters 1 and 2 of the ASX Listing Rules

The proposed change in the nature and scale of the Company's activities will require the Company to (in accordance with ASX Listing Rule 11.1.3) re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules (including any ASX requirement to treat the Securities as restricted securities). Accordingly, the Securities have been suspended and ceased trading on ASX's Official List on 6 October 2016. If the Acquisition Resolutions are approved at the Meeting, it is expected that the Company's Securities will remain suspended from quotation until the Company has acquired FSG pursuant to the Agreement and re-complied with Chapters 1 and 2 of the ASX Listing Rules, including by satisfaction of ASX's conditions precedent to reinstatement.

If any Acquisition Resolutions are not approved at the Meeting, the Acquisition will not process and the Company will apply to ASX to have its Securities reinstated to quotation on ASX's Official List after the Company announces the results of the Meeting in accordance with the ASX Listing Rules and Corporations Act.

### 2.4 Guidance Note 12

Changes to ASX Guidance Note 12 in 2014, as further modified in July 2016, altered ASX's policy in relation to the application of the "20 cent rule" to re-compliance listings. Previously, an entity required to re-comply with Chapters 1 and 2 of the ASX Listing Rules, was required to offer any shares as part of a re-compliance at an issue price of at least 20 cents per share. Guidance Note 12 states that this issue price can now be below 20 cents when an entity's securities have been trading on ASX at less than 20 cents each. ASX will consider a request not to apply the 20 cent rule provided:

(a) either:

(i) the price at which the entity's securities traded on ASX over the 20 trading days preceding the date of the announcement of the proposed transaction (or, if the entity was already suspended at the time of the announcement, the last 20 trading days prior to its suspension) was not less than two cents each; or

(ii) the entity announces at the same time that it announces the proposed transaction that it intends to consolidate its securities at a specified ratio that will be sufficient, based on the lowest price at which the entity's securities traded over the 20 trading days referred to previously, to achieve a market value for its securities of not less than two cents each;

(b) the issue price, sale price or exercise price for any securities being issued or sold as part of, or in conjunction with, the transaction:

(i) is not less than two cents each; and

(ii) is specifically approved by security holders as part of the approval(s) obtained under ASX Listing Rule 11.1.2; and

(c) ASX is otherwise satisfied that the entity's proposed capital structure after the transaction will satisfy ASX Listing Rules 1.1 condition 1 and 12.5 (appropriate structure for a listed entity).

For this reason, the Company is seeking Shareholder approval for the Company to issue Shares at an issue price of $0.03 per Share pursuant to the Capital Raising as part of the approvals sought under ASX Listing Rule 11.1.2.

## 3. RESOLUTION 2 – CONSOLIDATION OF CAPITAL

### 3.1 General

Resolution 2 seeks Shareholder approval to consolidate the number of Shares and Options on issue on a 1 for 50 basis (**Consolidation**).

The purpose of the Consolidation is to implement a more appropriate capital structure for the Company going forward and to seek to comply with relevant ASX Listing Rules as part of the back-door listing when the Company seeks to obtain re-quotation of its Shares on ASX, should Shareholder approval be obtained for all of the Acquisition Resolutions.

The Directors intend to implement the Consolidation prior to completion of the Agreement and prior to the proposed issues of Securities pursuant to the Acquisition and the Capital Raising, but the Consolidation will only occur if Shareholders approve all Acquisition Resolutions.

Resolution 2 is subject to the passing of all other Acquisition Resolutions.

### 3.2 Legal requirements

Section 254H of the Corporations Act provides that a company may, by resolution passed in a general meeting, convert all or any of its shares into a larger or smaller number.

The ASX Listing Rules also require that the number of Options on issue be consolidated in the same ratio as the ordinary capital and the exercise price amended in inverse proportion to that ratio.

### 3.3 Fractional entitlements

Not all Security holders will hold that number of Shares or Options (as the case may be) which can be evenly divided by 50. Where a fractional entitlement occurs, the Company will round that fraction up to the nearest whole Security.

### 3.4 Taxation

It is not considered that any taxation implications will exist for Security holders arising from the Consolidation. However, Security holders are advised to seek their own tax advice on the effect of the Consolidation. The Company, the Directors, the Proposed Directors and their advisors do not accept any responsibility for the individual taxation implications arising from the Consolidation or the other Acquisition Resolutions.

### 3.5 Holding statements

From the date two Business Days after the Consolidation is approved by Shareholders:

(a) all holding statements for Shares will cease to have any effect, except as evidence of entitlement to a certain number of Shares on a post-Consolidation basis; and

(b) all certificates for unlisted Options will cease to have any effect, except as evidence of entitlement to a certain number of Options on a post-Consolidation basis.

After the Consolidation becomes effective, the Company will arrange for new holding statements for Securities proposed to be quoted to be issued to holders of those Securities and, to the extent required, new certificates for unlisted Options to be issued to Optionholders.

It is the responsibility of each Security holder to check the number of Shares and Options held prior to disposal or exercise (as the case may be).

### 3.6 Effect on capital structure

The estimated effect which the Consolidation will have on the capital structure of the Company is set out in the table in Section 1.12.

### 3.7 Indicative timetable

If Resolution 2 and all other Acquisition Resolutions are passed, the Consolidation will take effect in accordance with the timetable set out in Section 1.16 (as set out in Appendix 7A (paragraph 8) of the ASX Listing Rules).

## 4. RESOLUTION 3 – ISSUE OF CONSIDERATION SHARES

### 4.1 General

As outlined in Section 1.7, the Company has entered into the Agreement pursuant to which the Company will, amongst other things and subject to Shareholder approval, issue the Consideration Shares to the Vendor.

A summary of the Agreement is set out in Section 1.7.

Resolution 3 seeks Shareholder approval for the purposes of section 611 (Item 7) of the Corporations Act to allow the Company to issue the Consideration Shares to the Vendor, as well as the acquisition of a relevant interest in the issued voting shares of the Company by the Vendor otherwise prohibited by section 606(1) of the Corporations Act by virtue of the issue of those Consideration Shares (**Voting Acquisition**).

Assuming no other Shares are issued other than as required to complete the Minimum Subscription under the Capital Raising (e.g. no other Options are exercised), the Vendor's voting power in the Company will increase from 0% up to 56.25%.

Pursuant to ASX Listing Rule 7.2 (Exception 16), shareholder approval pursuant to ASX Listing Rule 7.1 is not required where approval is being obtained pursuant to section 611 (Item 7) of the Corporations Act. Accordingly, if Resolution 3 is passed by the requisite majority, the issue of the Consideration Shares to the Vendor will be made without using the Company's 15% annual placement capacity and the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 and, if applicable, the additional 10% annual capacity set out in ASX Listing Rule 7.1A without the requirement to obtain prior Shareholder approval.

The Corporations Act and ASIC Regulatory Guide 74 set out a number of regulatory requirements which must be satisfied. These are summarised below.

## 4.2 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

(a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and

(b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of the Consideration Shares constitutes giving a financial benefit and the Vendor is a related party of the Company by virtue of the fact that it is controlled by one of the Proposed Directors, who has reasonable grounds to believe he will become Directors following Settlement of the Acquisition.

The Directors consider that the issue of the Consideration Shares to the Vendor has been negotiated on arm's length terms. Accordingly, Shareholder approval is not required for the purpose of section 208 of the Corporations Act.

## 4.3 Section 611 (Item 7) of the Corporations Act

(a) **Section 606 of the Corporations Act – Statutory Prohibition**

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

(i) from 20% or below to more than 20%; or

(ii) from a starting point that is above 20% and below 90%,

(**Prohibition**).

(b) **Voting Power**

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

(c) **Associates**

For the purposes of determining voting power under the Corporations Act, subject to specified exclusions, a person (second person) is an "associate" of the other person (first person) if:

(i) the first person is a body corporate and the second person is:

(A) a body corporate the first person controls;

(B) a body corporate that controls the first person; or

(C) a body corporate that is controlled by an entity that controls the first person;

(ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or

(iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies.

A relevant agreement includes an agreement, arrangement or understanding, whether written or oral, formal or informal and whether or not having legal or equitable force.

Mr Andrew Roberts (a proposed new Director of the Company) and Ms Wendy Tyberek are both directors and controlling shareholders of the Vendor. As such, they are deemed to be associates of the Vendor for the purposes of determining its voting power under the Corporations Act. For further detail refer to 4.4(a) and 4.4(b) below.

(d) **Relevant Interests**

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

(i) are the holder of the securities;

(ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

(iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person is deemed to have a "relevant interest" in any securities that a body corporate has if their voting power in that body corporate is above 20% or they control that body corporate.

By virtue of being associates of the Vendor, Mr Andrew Roberts (a proposed new Director of the Company) and Ms Wendy Tyberek are deemed to have a relevant interest in securities the Vendor is to be issued pursuant to the Acquisition. For further detail refer to 4.4(b) below.

## 4.4 Specific information required by section 611 (Item 7) of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for section 611 (Item 7) of the Corporations Act.

### (a) Identity of the acquirer and its associates

The acquirer is the Vendor, Convergent Technology Holdings Pty Ltd.

Mr Andrew Roberts and Ms Wendy Tyberek are both directors and controlling shareholders of the Vendor, each holding 50% of the issued capital of the Vendor. Due to this controlling interest, they are deemed to be associates of the Vendor for the purposes of determining its voting power under the Corporations Act and are deemed to have a relevant interest in securities the Vendor is to be issued pursuant to the Acquisition.

As at the date of this Notice, neither Mr Roberts nor Ms Tyberek hold any securities in the Company (personally or through any other entities).

### (b) Relevant interest and changes in voting power

The relevant interests of the Vendor (and its associates) in voting shares in the capital of the Company (both current, and following Settlement on a post consolidation basis) are set out in the table below (each column assumes that no other Shares are issued or Options are exercised at the relevant time unless otherwise stated):

| Party | Relevant interest as at the date of this Notice | Consideration Shares | Total maximum relevant interest following Settlement |
|---|---|---|---|
| Convergent Technology Holdings Pty Ltd | Nil | 185,714,286 | 56.25% |
| Andrew Roberts | Nil | Nil | 56.25% |
| Wendy Tyberek | Nil | Nil | 56.25% |

The maximum extent of the increase in voting power in the Company resulting from the issue of Consideration Shares to be issued to the Vendor is 56.25%, being an increase from 0% up to 56.25%.

Mr Andrew Roberts and Ms Wendy Tyberek are both directors and controlling shareholders of the Vendor, each holding 50% of the issued capital of the Vendor. Due to this controlling interest, they are deemed to be associates of the Vendor for the purposes of determining its voting power under the Corporations Act and are deemed to have a relevant interest in securities the Vendor is to be issued pursuant to the Acquisition.

As at the date of this Notice, neither Mr Roberts nor Ms Tyberek hold any securities in the Company (personally or through any other entities). This assumes that no other Shares are issued other than as required to complete the Minimum Subscription under the Capital Raising (e.g. no other Options are exercised).

(c) **Reasons for the proposed acquisition**

The reason for the issue of Shares to the Vendor and the resulting Voting Acquisition is in consideration for the Acquisition in accordance with the terms of the Agreement.

(d) **Date of proposed acquisition**

Any Consideration Shares to be issued to the Vendor which will result in the Voting Acquisition will be issued on Settlement of the Acquisition.

(e) **Material terms of proposed acquisition**

The material terms of the Agreement, which, on completion, will result in the issue of Consideration Shares to the Vendor resulting in the Voting Acquisition, are summarised in Section 1.7.

(f) **Acquirer's intentions**

Other than as disclosed elsewhere in this Explanatory Statement, as at the date of this Notice, the Company understands that the Vendor:

(i) has no present intention of making any significant changes to the business of the Company;

(ii) intends to participate in further capital raisings of the Company to maintain its then shareholding interest subject to any necessary Shareholder or regulatory approvals;

(iii) has no present intention of making changes regarding the future employment of the present employees of the Company;

(iv) does not intend to redeploy any fixed assets of the Company;

(v) does not intend to transfer any property between the Company and himself; and

(vi) has no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to the Vendor at the date of this Notice. These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(g) **Proposed change of directors of the Company**

The proposed changes to the Board as a result of completion of the Agreement are set out in Section 1.17.

(h) **Other information**

The Directors are not aware of any information other than as set out in this Notice that is material to the decision on how to vote on Resolution 3.

### 4.5 Recommendations of Directors

The Directors do not have any material personal interests in the outcome of Resolution 3 and unanimously recommend that Shareholders vote in favour of Resolution 3 as they consider the proposed issue of the Consideration Shares to be in the best interests of Shareholders for the following reasons:

(a) after assessment of the advantages and disadvantages referred to in Sections 1.18 and 1.19 the Directors are of the view that the advantages outweigh the disadvantages; and

(b) the Independent Expert has determined the issue of the Consideration Shares to the Vendor to be **fair and reasonable** to the non-associated Shareholders.

### 4.6 Independent Expert's Report

The Independent Expert's Report (a copy of which is attached as Annexure A to this Explanatory Statement) sets out a detailed examination of the issue of the Consideration Shares to the Vendor to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 3.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 3 are **fair and reasonable** to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

The Independent Expert's Report is available on the Company's website at http://www.freshtelholdings.com.au/. The Company will provide a hard copy of the Independent Expert's Report free of charge if requested.

## 5. RESOLUTION 4 – CAPITAL RAISING PURSUANT TO A PROSPECTUS

### 5.1 General

As detailed in Section 1.10, Resolution 4 seeks Shareholder approval for the issue of up to 133,333,333 Shares (on a post-Consolidation basis) at $0.03 per Share to raise a maximum of $4,000,000 under the Capital Raising.

The Capital Raising will be undertaken via the issue of a prospectus (**Prospectus**) to assist in complying with Chapters 1 and 2 of the ASX Listing Rules which is required to obtain re-instatement of its Shares to trading on the Official List of ASX on Settlement of the Acquisition.

The Company has engaged the services of Patersons Securities Limited (ACN 008 896 311) (**Patersons**), a licensed securities dealer (AFSL: 239052), to manage the Capital Raising. The Company will pay Patersons a fee of 6% (exclusive of goods and services tax) on the amount raised under the Capital Raising and a lead manager fee of $25,000.

For the purposes of the ASX Listing Rules, none of the subscribers for the Shares to be issued under the Capital Raising will be related parties of the Company.

It is noted the Shares the subject of the Capital Raising will only be issued if:

(a) the Minimum Subscription is raised;

(b) Shareholders pass all of the Acquisition Resolutions;

(c) the Company has received conditional approval for re-quotation of the Company's securities on ASX on terms acceptable to the Company; and

(d) the issue occurs contemporaneously with Settlement.

Further details of the Capital Raising will be set out in the Prospectus.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 4 will be to allow the Company to issue the Shares pursuant to the Capital Raising during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Resolution 4 is subject to the passing of all other Acquisition Resolutions.

## 5.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Capital Raising:

(a) the maximum number of Shares to be issued is 133,333,333 (on a post-Consolidation basis);

(b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;

(c) the issue price will be $0.03 per Share (on a post-Consolidation basis);

(d) the Shares will be issued to the public at the Board's discretion pursuant to a public offer by Prospectus. No related party of the Company will participate in the Capital Raising;

(e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and

(f) the Company intends to use the funds raised from the Shares issued under the Capital Raising as set out in Section 1.15.

## 6. RESOLUTIONS 5 AND 6 – ELECTION OF DIRECTORS

### 6.1 General

In accordance with the Agreement, the Company has agreed to appoint Andrew Roberts and Wayne Wilson (**Proposed Directors**) as directors of the Company. Their appointments will take effect on and from Settlement.

Pursuant to Resolutions 5 and 6, Andrew Roberts and Wayne Wilson seek election from Shareholders to be appointed as directors of the Company upon Settlement.

Clause 13.3 of the Constitution allows the Company to appoint at any time a person to be a Director by resolution passed in General Meeting.

### 6.2 Qualifications

The qualifications and experience of the Proposed Directors are set out in Section 1.17.

### *6.3* Independence

If elected, the Board considers that Mr Roberts will not be an independent director.

If elected, the Board considers that Mr Wilson will be an independent director.

### 6.4 Proposed remuneration

| Proposed Director | Proposed remuneration on an annualised basis |
|---|---|
| Andrew Roberts | $295,000 base plus Short Term Incentive (**STI**) of 30% of base |
| Wayne Wilson | Nil |

### 6.5 Board Recommendation

The Board supports the election of each of the Proposed Directors and recommends that Shareholders vote in favour of Resolutions 5 and 6.

Resolutions 5 and 6 are each subject to the passing of all other Acquisition Resolutions.

## 7. RESOLUTION 7 – CHANGE OF COMPANY NAME

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name.

Resolution 7 seeks the approval of Shareholders for the Company to change its name to "Field Solutions Holdings Limited". The Board proposes this change of name on the basis that it more accurately reflects the proposed future operations of the Company upon Settlement.

If Resolution 7 is passed the change of name will take effect when ASIC alters the details of the Company's registration. It is note the change of name is conditional on Settlement of the Acquisition occurring.

If Resolution 7 is passed, the Company will lodge a copy of the special resolution with ASIC on Settlement of the Acquisition in order to effect the change.

Resolution 7 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 7 for it to be passed.

## 8. RESOLUTION 8 – ISSUE OF FACILITATOR SHARES

### 8.1 General

Resolution 8 seeks Shareholder approval for the issue of up to 4,000,000 Facilitator Shares in consideration for services provided by Patersons Securities Limited (**Facilitators**).

A summary of ASX Listing Rule 7.1 is set out in Section 5.1 above.

The effect of Resolution 8 will be to allow the Company to issue the Facilitator Shares during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

### 8.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 8:

(a) the maximum number of Facilitator Shares to be issued is up to 4,000,000;

(b) the Facilitator Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Facilitator Shares will occur on the same date;

(c) the Facilitator Shares will be issued for nil cash consideration;

(d) the Shares will be issued to the Facilitators (or their nominees to be determined by the Facilitator following Settlement of the Acquisition), who are not a related party of the Company;

(e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and

(f) no funds will be raised from the issue of the Facilitator Shares as they are being issued in consideration for services provided by the Facilitators in connection with the Acquisition.

## 9. RESOLUTIONS 9 TO 11 – ISSUE OF SHARES TO RELATED PARTIES

### 9.1 General

In accordance with the Agreement, the Company has agreed, subject to obtaining Shareholder approval, to issue a total of up to 6,000,000 Director

Shares to Messrs, Ken Carr and Peter Buttery and Mithila Nath Ranawake (**Related Parties**) on the terms and conditions set out below.

A summary of Chapter 2E of the Corporations Act is set out in Section 4.2 above.

The issue of the Director Shares constitutes giving a financial benefit and Messrs Ken Carr, Peter Buttery and Mithila Nath Ranawake are related parties of the Company by virtue of being Directors.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

It is the view of the Company that the exceptions set out in sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the grant of Director Shares to the Related Parties.

### 9.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed grant of Director Shares:

(a) the related parties are Messrs, Ken Carr, Peter Buttery and Mithila Nath Ranawake, they are related parties by virtue of being Directors;

(b) the maximum number of Director Shares (being the nature of the financial benefit being provided) to be granted to the Related Parties 6,000,000 comprising:

  (i) 2,000,000 to Dr Ken Carr;

  (ii) 2,000,000 to Mr Peter Buttery; and

  (iii) 2,000,000 to Mr Mithila Nath Ranawake;

(c) the Director Shares will be granted to the Related Parties no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Director Shares will be issued on one date;

(d) the Director Shares will be issued for nil cash consideration, accordingly no funds will be raised;

(e) the Director Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;

(f) the relevant interests of the Related Parties in securities of the Company on a post consolidation basis are set out below:

| Related Party | Shares[1] | Options |
|---|---|---|
| Dr Ken Carr | 2,000,000 | Nil |
| Mr Peter Buttery | 3,602,829[2] | 50,088[3] |
| Mt Mithila Nath Ranawake | 2,000,000 | Nil |

**Notes:**

[1] These figures include the Director Shares to be issued to the Directors in accordance with Resolutions 9, 10 and 11 and are subject to Shareholder approval.

[2] Comprising 74,648,103 held indirectly through Boundary Nominees Pty Ltd atf The Buttery Superannuation Fund and 5,493,334 held directly by Peter Buttery (on a pre-consolidation basis). Post consolidation figure is 1,602,829 in addition to 2,000,000 Director Shares.

[3] Comprising 2,332,753 held indirectly through Boundary Nominees Pty Ltd atf The Buttery Superannuation Fund and 171,667 held directly by Peter Buttery (on a pre-consolidation basis). Post Consolidation figure is 50,088.

(g) the remuneration and emoluments from the Company to the Related Parties for the previous financial year and the proposed remuneration and emoluments for the current financial year are set out below:

| Related Party | Current Financial Year | Previous Financial Year |
|---|---|---|
| Dr Ken Carr | $60,225 | $Nil |
| Mr Peter Buttery | $44,895 | $Nil |
| Mr Mithila Nath Ranawake | $52,560 | $Nil |

(h) if Resolutions 9 to 11 are passed, a total of 6,000,000 Shares will be issued. This will increase the number of Shares on issue from 34,460,754 to 363,508,373 (assuming that no other Options are exercised, the Maximum Subscription under the Capital Raising is raised and no Shares are issued other than those contemplated by the Resolutions of this Notice) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 90.52% of which 1.65% can be attributed to the issue of the Director Shares comprising 0.55% by Dr Ken Carr, 0.55% by Mr Peter Buttery and 0.55% by Mr Mithila Nath Ranawake. It is noted that when calculating the dilution of existing shareholders, Mr Buttery's current shareholding has been included in the total number of Shares held by existing shareholders.

(i) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out below:

| | Price | Date |
|---|---|---|
| Highest | $0.002 | 6 October 2016 |
| Lowest | $0.001 | 28 September 2016 |
| Last | $0.002 | 6 October 2016 |

(j) for example purposes only, the value of the Director Shares based on various Share prices has been set out below:

| Number of Director Shares | Price | Value |
|---|---|---|
| 2,000,000 | $0.02 | $40,000 |
| 2,000,000 | $0.03 | $60,000 |
| 2,000,000 | $0.04 | $80,000 |

(k) the Board acknowledges the issue of Director Shares to Dr Ken Carr, Mr Peter Buttery and Mr Mithila Nath Ranawake is contrary to Recommendation 8.2 of The Corporate Governance Principles and Recommendations with 2014 Amendments (3rd Edition) as published by The ASX Corporate Governance Council. However, the Board considers the grant of Director Shares to Dr Ken Carr, Mr Peter Buttery and Mr Mithila Nath Ranawake reasonable in the circumstances for the reason set out in paragraph (m);

(l) the primary purpose of the grant of the Director Shares to the Related Parties is in lieu of remuneration owing to the Related Parties;

(m) Dr Ken Carr declines to make a recommendation to Shareholders in relation to Resolution 9 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Director Shares in the Company should Resolution 9 be passed. However, in respect of Resolutions 10 and 11, Dr Ken Carr recommends that Shareholders vote in favour of the Resolutions for the following reasons:

  (i) the grant of Director Shares to the Related Parties will align the interests of the Related Parties with those of Shareholders;

  (ii) the grant of the Director Shares is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties; and

  (iii) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in granting the Director Shares upon the terms proposed;

(n) Mr Peter Buttery declines to make a recommendation to Shareholders in relation to Resolution 10 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Director Shares in the Company should Resolution 10 be passed. However, in respect of Resolutions 9 and 11, Mr Peter Buttery recommends that Shareholders vote in favour of the Resolutions for the reasons set out in paragraph (m);

(o) Mr Mithila Nath Ranawake declines to make a recommendation to Shareholders in relation to Resolution 11 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Director Shares in the Company should Resolution 11 be passed. However, in respect of Resolutions 9 and 10, Mr Mithila Nath Ranawake recommends that Shareholders vote in favour of the Resolutions for the reasons set out in paragraph (m);

(p) with the exception of Dr Ken Carr, Mr Peter Buttery and Mr Mithila Nath Ranawake, no other Director has a personal interest in the outcome of Resolutions 9 to 11;

(q) in forming their recommendations, each Director considered the experience of each other Related Party, the current market price of Shares, the current market practices when determining the number of Director Shares to be issued; and

(r) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 9 to 11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Shares to the Related Parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Director Shares to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

## GLOSSARY

**$** means Australian dollars.

**Acquisition** means the acquisition by the Company of 100% of the issued capital in FSG.

**Acquisition Resolutions** means the inter-conditional Resolutions in this Notice, being Resolutions 1 to 11 (inclusive).

**AEDT** means Australian Eastern Daylight Time.

**Agreement** has the meaning given to that term in Section 1.1.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**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.

**Chair** means the chair of the Meeting.

**Company** means Freshtel Holdings Limited (ACN 111 460 121).

**Conditions Precedent** has the meaning given to that term in Section 1.1(b).

**Consideration Shares** has the meaning given to that term in Section 1.1.

**Constitution** means the Company's constitution.

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

**Directors** means the current directors of the Company.

**Director Shares** has the meaning given to that term in Section 1.1(f).

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**Facilitator Shares** has the meaning given to that term in Section 1.1(f).

**FSG** means Field Solutions Group Pty Ltd (ACN 155 490 074).

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**Independent Expert** means PKF Corporate Finance Pty (ACN 097 893 957 AFSL 295872).

**Independent Expert's Report** means the Independent Experts Report prepared by the Independent Expert which is attached to this Notice at Annexure A.

**Notice** or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

**Official Quotation** means official quotation of the Company's Shares on ASX.

**Option** means an option to acquire a Share.

**Optionholder** means a holder of an Option.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolutions** means the resolutions set out in the Notice, or any one of them, as the context requires.

**Section** means a section of the Explanatory Statement.

**Security** means a security in the capital of the Company, including a Share or an Option.

**Securityholder** means a holder of a Share or an Option.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a registered holder of a Share.

**Vendor** means Convergent Technology Holdings Pty Ltd. (ACN 155 483 659).

**WST** means Western Standard Time as observed in Perth, Western Australia.

## SCHEDULE 1 – PRO FORMA BALANCE SHEET

| | UNAUDITED<br>31 December 2016 | PROFORMA MINIMUM SUBSCRIPTION ($3,000,000)<br>31 March 2017 | PROFORMA FULL SUBSCRIPTION ($4,000,000)<br>31 March 2017 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | 362,010 | 2,740,652 | 3,680,652 |
| Other current assets | 28,718 | 831,562 | 831,562 |
| **TOTAL CURRENT ASSETS** | **390,728** | **3,572,214** | **4,512,214** |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | 0 | 213,611 | 213,611 |
| Intangible assets | 0 | 625,000 | 625,000 |
| **TOTAL NON-CURRENT ASSETS** | **0** | **838,611** | **838,611** |
| | | | |
| **TOTAL ASSETS** | **390,728** | **4,410,825** | **5,350,825** |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 126,287 | 620,208 | 620,208 |
| Current tax liabilities | (13,306) | 85,904 | 85,904 |
| Provisions | 0 | 45,297 | 45,297 |
| **TOTAL CURRENT LIABILITIES** | **112,980** | **751,409** | **751,409** |
| | | | |
| **TOTAL LIABILITIES** | **112,980** | **751,409** | **751,409** |
| | | | |
| **NET ASSETS (LIABILITIES)** | **277,747** | **3,659,416** | **4,599,416** |
| | | | |
| **EQUITY** | | | |
| Share capital | 39,977,288 | 4,020,898 | 4,960,898 |
| Accumulated losses | (39,699,541) | (361,482) | (361,482) |
| **TOTAL EQUITY** | **277,747** | **3,659,416** | **4,599,416** |

# Freshtel Holdings Ltd

## Proposed Acquisition of
## Field Solutions Group Pty Ltd

## Independent Expert's Report

17 January 2017

17 January 2017

The Independent Directors
Freshtel Holdings Limited
2980 Frankston Flinders Road
Balnarring VIC 3926

Dear Sirs

## INDEPENDENT EXPERT'S REPORT IN RELATION TO THE BINDING AGREEMENT TO ACQUIRE FIELD SOLUTIONS GROUP PTY LTD

### Introduction

On 23 November 2016, Freshtel Holdings Limited ("**Freshtel**" or the "**Company**") announced that it had entered into a binding agreement to acquire 100% of the issued shares of Field Solutions Group Pty Limited ("**FSG**") (the "**Acquisition**"). The Acquisition is to be funded via the issue of 185,714,286 (on a post consolidation basis – see below for further details) ordinary shares (the "**Consideration Shares**") in Freshtel to the FSG shareholders (the "**Vendors**").

The Acquisition is conditional upon the following key matters:

- completion of satisfactory due diligence procedures on FSG by Freshtel;
- the consolidation of Freshtel's capital on the basis that every 50 shares / options be consolidated into 1 share / option ("**Consolidation**");
- Freshtel completing a capital raising of not less than $3 million through the issue of not less than 100,000,000 ordinary shares at an issue price of $0.03 per share (on a post-Consolidation basis) ("**Capital Raising**");
- Freshtel obtaining all necessary shareholder approvals pursuant to the *Corporations Act 2001 (Cth)* ("**Corporations Act**") and Australian Securities Exchange ("**ASX**") Listing Rules or any other relevant law(s);
- Freshtel obtaining all necessary third party approvals and consents; and
- Freshtel obtaining all necessary regulatory approvals, including but not limited to, approval to reinstatement to official quotation on the ASX on conditions satisfactory to the Company acting reasonably.

Refer to **Section 1.1** for further details on the conditions.

In addition to the above, upon completion of the Acquisition, Freshtel will also issue (on a post-Consolidation basis), the following:

- up to 4,000,000 Freshtel Shares to facilitators of the Acquisition and/or advisors to the Company ("**Facilitator Shares**"); and
- up to 6,000,000 Freshtel Shares to existing directors of the Company ("**Director Shares**").

Together, the Acquisition, Consolidation, Capital Raising and the issue of the Facilitator Shares and the Director Shares, are herein referred to as the "**Transactions**".

Further information on the Acquisition is set out in **Section 1** of this report ("**Report**") and in the Notice of Meeting and Explanatory Statement issued by Freshtel which this Report accompanies.

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## Requirement for an Independent Expert's Report

This Report has been prepared by PKF Corporate Finance (NSW) Pty Limited ("**PKFCF**") to assist the independent directors of Freshtel in relation to their obligations arising under Chapter 6 of the Corporations Act which deals with control transactions. Section 606(1) prohibits a transaction which results in the voting interests of a person increasing from below 20% to more than 20%. However, Section 611(7) of the Corporations Act provides an exception where the transaction that would otherwise breach Section 606(1), is approved by a resolution at a general meeting of the company.

In satisfying the requirement under Section 611(7) to provide members of Freshtel with information material to the decision on how to vote on the issue of the Consideration Shares, the Directors have commissioned PKFCF as the Independent Expert stating whether, in the its opinion, the Acquisition (including the issue of the Consideration Shares) is "fair" and "reasonable" to Freshtel's shareholders who are not associated with the Acquisition ("**Non-Associated Shareholders**");

This Report has also been prepared to assist Non-Associated Shareholders in considering whether or not to approve the Acquisition and related components (including the Consolidation, Capital Raising and the issue of the Facilitator Shares and the Director Shares).

Further details of the above regulatory requirements can be found in **Section 1.3** of this Report.

## Summary of Conclusions

In summary, our opinion is that the Acquisition is "**fair" and "reasonable"** to Non-Associated Shareholders of Freshtel.

Set out below is a summary of how we have reached our conclusions:

### Fairness

Our fairness assessment has been undertaken on the basis that the Acquisition is a "control transaction" for the purposes of Regulatory Guide 111 *Content of Expert Reports* issued by ASIC ("**RG 111**").

This analysis ignores the fact that Freshtel Shareholders currently individually hold minority interests in Freshtel. Accordingly, our assessment as to whether or not the Acquisition is "fair" under RG 111 has been undertaken by comparing:

- the current fair market value of a Freshtel Share on a control basis (post-Consolidation) as at 30 November 2016 ("**Valuation Date**"); with
- the estimated fair market value of a Freshtel Share on a minority basis (also post-Consolidation) assuming completion of the Transactions had occurred at the Valuation Date.

Our assessment is set out in the following table:

**Table 1: Fairness Assessment**

| | Note / Report Reference | $3 Million Capital Raising | | | $4 Million Capital Raising | | |
|---|---|---|---|---|---|---|---|
| | | Low | Mid-Point | High | Low | Mid-Point | High |
| ***What do Non-Associated Shareholders have now:*** | | | | | | | |
| Assessed Fair Market Value of Freshtel Per Share (Control Basis, Post-Consolidation) | (a) Section 7.3 | $0.0070 | $0.0084 | $0.0099 | $0.0070 | $0.0084 | $0.0099 |
| ***What will Non-Associated Shareholders get:*** | | | | | | | |
| Assessed Fair Market Value of Freshtel Per Share (Minority Basis, Post-Transactions) | (b) Section 9.2 | $0.0179 | $0.0192 | $0.0206 | $0.0182 | $0.0194 | $0.0207 |
| ***Fairness Assessment:*** | | | | | | | |
| Is the Acquisition Fair or Unfair? | | Fair | Fair | Fair | Fair | Fair | Fair |
| By how much? ($) | (b) - (a) = (c) | $0.0109 | $0.0108 | $0.0107 | $0.0112 | $0.0110 | $0.0109 |
| By how much? (%) | (c) / (a) | 156% | 128% | 108% | 161% | 131% | 110% |

***Source:*** PKFCF Analysis.

As our assessment is that the minority interest value in a Freshtel Share post-Transactions is likely to exceed the controlling interest value of a Freshtel Share pre-Transactions, we have concluded that the Acquisition is "**fair**" to Non-Associated Shareholders as a whole.

We note that a key factor in determining the fair market value of a Freshtel Share post-Transactions is the pricing of the Capital Raising. Should there be any adjustment to the proposed pricing of the Capital Raising, this may affect our conclusion. However, any such reduction would need to be material to the proposed amount of $0.003 per Share.

Reasonableness

As we have concluded that the Acquisition is "**fair**", in accordance with RG 111, it is also "**reasonable**". Nevertheless, we have considered the advantages and disadvantages of the Acquisition. The following table set out a summary of the advantages and disadvantages which we have considered as part of our analysis. Detailed commentary of the advantages and disadvantages listed below are set out in **Section 10.3** of this Report:

**Table 2: Advantages & Disadvantages of the Offer**

| Advantages | Disadvantages |
|---|---|
| • ***Ability of Freshtel to Continue as an ASX Listed Company*** – The ASX has the ability to remove from its register, any company which it deems is not carrying on a sufficient level of operations.<br><br>In May 2016, the ASX advised Freshtel's Directors that it had set a deadline of February 2017 for completion of a transaction that would result in Freshtel having a sufficient level of operations.<br><br>The Acquisition should enable Freshtel to remain listed on the ASX providing existing Shareholders with continued liquidity of their shares.<br><br>• ***Funding of Acquisition*** – The consideration for the Acquisition consists entirely of new Shares in Freshtel. This structure preserves the cash reserves of Freshtel and also aligns the interests of the Vendors of FSG with those of existing Shareholders of Freshtel.<br><br>• ***Increased Market Capitalisation of Freshtel*** – on completion of the Transactions, Freshtel's market capitalisation will increase to between $9.9 million to $10.9 million. This may deliver benefits to the Company including greater access to equity and debt, and increased liquidity of Freshtel's shares on the ASX.<br><br>• ***Growth Opportunities*** – funds raised from the Capital Raising connected with th Transactions can be used to fund growth opportunities for FSG. | • ***Dilution of Existing Shareholders*** – on completion of the Transactions, the equity and voting interests of existing Freshtel Shareholders will decrease from 100% to between 9.5% and 10.4%.<br><br>• ***Introduction of Controlling Shareholder*** – the Vendors of FSG will become controlling shareholders in the Company holding a voting interest of between 51.1% and 56.2% (depending on the final result of the Capital Raising). Existing Shareholders will be subject to the control influence of the Vendors.<br><br>• ***Change in Nature of Operation –*** the Acquisition will result in a change to the nature of the Company's operations which may not be consistent with the investment objectives and risk profiles of existing Freshtel Shareholders. |

***Source:*** PKFCF analysis

### *Implications for Non-Associated Shareholders of Rejecting the Acquisition*

In the case that the Acquisition (including the Transactions) are not approved by Freshtel Shareholders, Non-Associated Shareholders will face the prospect of:

- in the short term, remaining shareholders in a Company that has no material operations and minimal assets, while still being subject to the costs of maintaining the listed vehicle; and
- in the medium term, as a result of having insufficient operations, Freshtel may be removed from the official list of the ASX, resulting in Non-Associated Shareholders holding shares that cannot be traded in a public market.

## Other Matters

### *Summary*

This section sets out a summary of our Report and its conclusions. You should read our complete Report, which sets out in full the purpose, scope, sources of information, basis of evaluation, limitations, analysis and our findings.

### *Scope, Limitations & Use of this Report*

Full details of the scope, limitations and other qualifications to this Report are set out in **Section 2**.

The scope of the procedures undertaken in preparing this Report does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards.

The Report was prepared in accordance with APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited.

The Report has been prepared at the request, and for the benefit, of the independent directors of Freshtel and for the benefit of Non-Associated Shareholders. The Report was not prepared for any purpose or for the benefit of any other party, other than that stated in this Report.

### *Investors' Individual Circumstances*

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. PKFCF has not considered the effect of the proposals on the particular circumstances of individual Non-Associated Shareholders.

Some individual Non-Associated Shareholders may place a different emphasis on various aspects of the proposals from that adopted in this Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions as to whether or not the Acquisition is "fair" and "reasonable" in their individual circumstances. As the decision of individual Non-Associated Shareholders in relation to the Acquisition may be influenced by their particular circumstances (including their taxation position), Non-Associated Shareholders are advised to seek their own independent advice.

### *Financial Services Guide*

A financial services guide is attached to this Report.

Yours faithfully

| | |
|---|---|
| **Andrew Jones** | **Vince Fayad** |
| Director | Director |

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## 1. The Acquisition

### 1.1. Background

On 23 November 2016, Freshtel Holdings Limited ("**Freshtel**" or the "**Company**") announced that it had entered into a binding agreement to acquire 100% of the issued shares of Field Solutions Group Pty Limited ("**FSG**") (the "**Acquisition**"). The Acquisition is to be funded via the issue of 185,714,286 ordinary shares (the "**Consideration Shares**") in Freshtel to the FSG shareholders (the "**Vendors**").

The Acquisition is conditional upon the following:

- completion of satisfactory due diligence procedures on FSG by Freshtel;
- completion of satisfactory due diligence procedures on Freshtel by FSG;
- Freshtel, FSG and the Vendors entering into a formal share sale agreement;
- FSG and its controlled entities providing audited accounts for up to the last three financial years;
- completion by Freshtel, of the consolidation of its capital on the basis that every 50 shares / options be consolidated into 1 share / option ("**Consolidation**");
- Freshtel completing a capital raising of not less than $3 million through the issue of not less than 100,000,000 ordinary shares at an issue price of $0.03 per share (on a post-Consolidation basis) ("**Capital Raising**");
- Freshtel obtaining all necessary shareholder approvals pursuant to the *Corporations Act 2001 (Cth)* ("**Corporations Act**") and Australian Securities Exchange ("**ASX**") Listing Rules or any other relevant law(s);
- if required, the Company obtaining an Independent Expert's Report to discharge its obligations under Section 611(7) of the Corporations Act;
- Freshtel obtaining all necessary third party approvals and consents; and
- Freshtel obtaining all necessary regulatory approvals, including but not limited to, approval to reinstatement to official quotation on the ASX on conditions satisfactory to the Company acting reasonably.

In addition to the above, upon completion of the Acquisition, Freshtel will also issue (on a post-Consolidation basis), the following:

- up to 4,000,000 Freshtel Shares to facilitators of the Acquisition and/or advisors to the Company ("**Facilitator Shares**"); and
- up to 6,000,000 Freshtel Shares to existing directors of the Company ("**Director Shares**").

The issue of the Facilitator Shares and the Director Shares wil be subject to the recipient providing a duly executed restriction agreement where required by the ASX in accordance with the ASX Listing Rules.

Together, the Acquisition, Consolidation, Capital Raising and the issue of the Facilitator Shares and the Director Shares, are herein referred to as the "**Transactions**".

Further information on the Acquisition is set out in the Notice of Meeting and Explanatory Statement issued by Freshtel which this Report accompanies.

## 1.2. Indicative Post-Transactions Capital Structure

As at the date of this Report, Freshtel had 1,723,037,677 shares on issue. Upon completion of the Consolidation (but prior to the Acquisition, Capital Raising and issue of the Facilitator Shares and Director Shares) of Freshtel's issued capital on a 1 for 50 basis, Freshtel will have 34,460,754 shares on issue.

Set out below is the indicative capital structure of Freshtel upon completion of the Transactions:

**Table 3: Indicative Post-Transactions Capital Structure**

| | Current | | $3 Million Capital Raising | | $4 Million Capital Raising | |
|---|---|---|---|---|---|---|
| | # | % | # | % | # | % |
| Existing Freshtel Shareholders (Post-Consolidation) | 34,460,754 | 100.0% | 34,460,754 | 10.4% | 34,460,754 | 9.5% |
| Shares Issued Pursuant to Capital Raising | - | 0.0% | 100,000,000 | 30.3% | 133,333,333 | 36.7% |
| Issue of Consideration Shares | - | 0.0% | 185,714,286 | 56.2% | 185,714,286 | 51.1% |
| Issue of Facilitator Shares | - | 0.0% | 4,000,000 | 1.2% | 4,000,000 | 1.1% |
| Issue of Director Shares | - | 0.0% | 6,000,000 | 1.8% | 6,000,000 | 1.7% |
| **TOTAL** | **34,460,754** | **100.0%** | **330,175,040** | **100.0%** | **363,508,373** | **100.0%** |

***Source:*** Notice of Meeting; PKFCF Analysis

In addition to the above, Freshtel will have 2,433,290 options on issue (post-Consolidation). Refer to **Section 4.3.2** for further details regarding the options on issue.

We note that the indicative capital structure of the Company upon completion of the Transactions is only an estimate and is subject to variation.

## 1.3. Regulatory Requirements

### 1.3.1. Shareholder Approvals Required

Completion of the Acquisition is subject to a number of shareholder approvals which are to be considered at a general meeting of Freshtel Shareholders on or around 13 March 2017. Details of the approvals required are set out in the Notice of Meeting accompanying this Report.

This Report has been prepared in relation to the the issue of the Consideration Shares, for the purpose of Section 611(7) of the Corporations Act (Resolution 3);

### 1.3.2. Chapter 6 of the Corporations Act

Section 606 under Chapter 6 of the Corporations Act, prohibits a person or entity acquiring a relevant interest in voting securities of a listed entity if the acquisition would increase their voting power in the entity:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

In the present case, the Vendors will be issued the Consideration Shares which will see their voting interests in Freshtel exceed 20% (refer to **Section 1.2** above).

Section 611(7) of the Corporations Act allows a transaction prohibited by Section 606 to be approved by shareholders not having an interest in the transaction (i.e. Non-Associated Shareholders).

Accordingly, approval of the Acquisition by Non-Associated Shareholders pursuant to Section 611(7) is being sought by Resolution 3 as set out in the Notice of Meeting.

In satisfying the requirement under Section 611(7) to provide members of Freshtel with all information material to the decision on how to vote on the issue of the Consideration Shares, the Directors may commission a report by an Independent Expert that states whether, in the expert's opinion, the Acquisition (including the issue of the Consideration Shares) is "fair" and "reasonable" to the Non-Associated Shareholders.

# 2. Purpose, Scope & Reliance on Information

## 2.1. Purpose

This Report has been prepared at the request, of and for the benefit, of the independent directors of Freshtel and for the benefit of Non-Associated Shareholders, to assist the independent directors in fulfilling their obligation to provide Non-Associated Shareholders with full and proper disclosure to enable them to assess the merits of the Acquisition and to decide whether to recommend to Non-Associated Shareholders to approve or reject the Acquisition. This Report is to accompany the Notice of Meeting and Explanatory Statement to be provided to Freshtel Shareholders.

This Report has not prepared for any other purpose or for use by any other person. PKFCF does not accept any responsibility to any person other than the independent directors and Non-Associated Shareholders or for the use of the Report outside the stated purpose without the written consent of PKFCF. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

PKFCF has provided its consent for this Report to accompany the Notice of Meeting and Explanatory Statement. Apart from the Report, PKFCF is not responsible for the contents of the Notice of Meeting and Explanatory Statement, or any other documents or announcements associated with the Acquisition. PKFCF acknowledges that its Report may be lodged with regulatory bodies.

Approval or rejection of the Acquisition is a matter for individual Non-Associated Shareholders based on their expectations as to various factors including the value and future prospects of Freshtel and/or FSG, the terms of the Acquisition, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Non-Associated Shareholders should carefully consider the Notice of Meeting, the Explanatory Statement and this Report. Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Acquisition should consult their professional adviser.

## 2.2. Scope

### 2.2.1. Sources of Information

**Appendix 2** identifies the information referred to, and relied upon, by PKFCF during the course of preparing this Report and forming our opinion.

### 2.2.2. Reliance on Information

The statements and opinions contained in this Report are given in good faith and are based upon PKFCF's consideration and assessment of information provided by Freshtel and FSG. PKFCF believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, inquiry and review for the purpose of forming our opinion. The procedures adopted by PKFCF in forming our opinion may have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we do not express an audit or review opinion.

It was not PKFCF's role to undertake, and PKFCF has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Offer. PKFCF understands that the directors of Freshtel and FSG have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary.

PKFCF does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the directors of Freshtel, FSG and/or their advisors.

An opinion as to whether a corporate transaction is "fair" and/or "reasonable" is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that PKFCF advises that it is not in a position, nor is it practical for PKFCF, to undertake a detailed investigation or extensive verification exercise.

It is understood that, except where noted, the accounting information provided to PKFCF was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by Freshtel and FSG in previous accounting periods.

In accordance with normal practice, prior to finalising the Report, we confirmed facts with the Directors of Freshtel and FSG. This was undertaken by means of providing Freshtel and FSG with a draft report. PKFCF obtained a representation letter from the Directors of Freshtel and FSG confirming that, to the best of their knowledge, the information provided to, and relied upon by, PKFCF was complete and accurate, and that no significant information essential to the Report was withheld.

Freshtel agreed to indemnify PKFCF and PKF and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to PKFCF by Freshtel and/or FSG, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

### 2.2.3. Valuation Date

The opinions expressed in this Report are made as at 30 November 2016 ("**Valuation Date**").

### 2.2.4. Valuation

The valuations undertaken in this Report have also been performed in accordance with the requirements of Accounting Professional and Ethical Standard 225 – Valuation Services ("**APES 225**").

APES 225 provides for three (3) different valuation types as follows:

- ***"Valuation Engagement"***: means a valuation where the valuer is free to employ the valuation approaches, methods and procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the valuation available to the valuer at the time. This type of valuation provides the highest level of confidence for the valuation opinion provided.
- ***"Limited Scope Valuation Engagement"***: means a valuation where the scope of work is limited and/or restricted and where the valuer has not been able to perform all of the appropriate valuation procedures or was not free to apply all of the valuation approaches and valuation methods which the valuer would consider appropriate. Accordingly, the valuation opinions expressed under this type of valuation may be different had the valuer undertaken a "Valuation Engagement" in accordance with APES 225.
- ***"Calculation Engagement"***: means a valuation where the valuer and the client agree on valuation approached, valuation methods and valuation procedures that the valuer will apply. A calculation engagement generally does not include all of the valuation procedures required for a "Valuation Engagement" or a "Limited Scope Valuation Engagement". Accordingly, the valuation opinions expressed under this type of valuation may be different had the valuer undertaken a "Valuation Engagement" or "Limited Scope Valuation Engagement" in accordance with APES 225.

The valuations set out in this Report meet the definition of a "Valuation Engagement" under APES 225.

### *Fair market value*

The assessment of whether the Acquisition is “fair” and “reasonable” necessarily involves determining the “fair market value” of various securities, assets and interests.

For the purposes of our opinion, the term “fair market value” is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Therefore, there is no indisputable value and we normally express our valuation opinion as falling within a likely range.

### *Special value*

We have not considered special value in forming our opinion as to whether the Acquisition is “fair”. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the particular potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

## 2.2.5. Current Market Conditions

Our opinions are based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly out dated and in need of revision. PKFCF reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to PKFCF.

## 2.2.6. Prospective financial information

In preparing this Report, PKFCF had regard to prospective financial information for the financial year ending 30 June 2017 in relation to FSG (“**Prospective Financial Information**”). PKFCF understands that the Prospective Financial Information has been prepared as part of the ongoing management processes of FSG.

For the purposes of the Report, PKFCF understands and has assumed that the Prospective Financial Information:

- has been prepared fairly and honestly, on a reasonable basis and is based on the best information available to the management and directors of FSG and within the practical constraints and limitations of such information; and
- does not reflect any material bias either positive or negative.

We understand that the Prospective Financial Information has been based on assumptions concerning future events and market conditions and while prepared with due care and attention and the relevant directors consider the assumptions to be reasonable, future events and conditions are not accurately predictable and the assumptions and outcomes are subject to significant uncertainties. Actual results are likely to vary from the Prospective Financial Information and any variation may be materially positive or negative.

Accordingly, neither the directors of FSG nor PKFCF guarantee that the Prospective Financial Information or any other prospective statement contained in the Report or otherwise relied upon will be achieved.

For present purposes, PKFCF has not been engaged to undertake an independent review of the Prospective Financial Information in accordance with Australian Auditing or Assurance standards, and has not undertaken such a review. However in order to disclose and to rely on the Prospective Financial Information in the Report, PKFCF is required to satisfy itself that the Prospective Financial Information has a reasonable basis.

Set out below are some of the factors that, in our opinion, support a conclusion that nothing has come to our attention to suggest that the Prospective Financial Information has not been prepared a reasonable basis:

- a material portion of the Prospective Financial Information incorporates established trends in the businesses and current arrangements in place, for example:
  - Prospective Financial Information largely reflects an established history of operations, sales and profitability of the businesses; and/or
  - Prospective Financial Information reflects contractual or other forms of written arrangements in place to establish some surety as to future revenues; and
- Prospective Financial Information is based on detailed financial models that are designed to be driven by specific key inputs;
- Prospective Financial Information has been endorsed by the management and directors of FSG; and
- Prospective Financial Information makes appropriate allowance for known contingencies.

In order to ascertain the above, the scope of PKFCF's work in this regard has comprised the following:

- obtain details of the Prospective Financial Information and the process by which this information was prepared;
- discussed with directors of FSG regarding the basis on which the Prospective Financial Information was formulated and where possible on a "desktop" level, undertaking evaluation of such information, by reference to past trading performance, available evidence and/or other documentation provided;
- reviewed any assumed growth over historical earnings, determining the source of growth;
- enquired if the Prospective Financial Information is adopted by the directors of FSG;
- investigated previous forecasting history and experience;
- reviewed the most recently available monthly management accounts; and
- considered the relevant industry trends and the position of FSG within its respective industry.

### 2.2.7. Assumptions

In forming our opinions, we made certain assumptions, including the following:

- other than as publicly disclosed, all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts are in good standing, and will remain so and there is no alleged or actual material breach of the same or dispute in relation thereto (including, but not limited to, legal proceedings), and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding;
- that matters such as retention of key personnel and ownership of assets are in good standing, and will remain so;
- any public information used in relation to Freshtel, FSG and/or any other publicly available information relied on by us, is accurate and not misleading and up to date;

- information in relation to the Acquisition that is distributed to Freshtel Shareholders, or any information issued by a statutory body is complete, accurate and fairly presented in all material respects;
- the legal mechanisms proposed to implement the Acquisition are valid and effective; and
- if the Acquisition, Consolidation, Capital Raising and issue of the Facilitator Shares and Director Shares are approved, they will be implemented in accordance with the Notice of Meeting and Explanatory Statement issued by Freshtel.

## 3. Basis of assessment

### 3.1. "Fair" and "Reasonable"

In preparing this Report, we have considered the Regulatory Guides issued by ASIC and in particular, Regulatory Guide 111 *Content of Expert Reports* ("**RG 111**") and Regulatory Guide 76 *Related Party Transactions* ("**RG 76**").

RG 111 indicates that, in the context of approval under Section 611(7), where the effect on a company's shareholding is comparable to a takeover bid (i.e. a "control transaction"), an expert should analyse the proposal as if it were a takeover bid. In such case, the words "fair" and "reasonable" establish two distinct criteria:

- is the Acquisition "fair"; and
- is it "reasonable".

***Fair***

Under RG 111.11, the Acquisition will be "fair" if the value of the offer price or consideration is equal or greater than the value of the securities the subject of the Acquisition. This comparison should be made;

a) assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length;

b) assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares or units being acquired represent a minority of 'portfolio' parcel of shares or units.

***Reasonable***

Under RG 111, the Acquisition will be "reasonable" if it is "fair". If the Acquisition is "not fair", it may still be "reasonable", if the expert believes that there are sufficient reasons for Freshtel Shareholders to approve the Acquisition.

ASIC has identified a number of factors which an expert might consider when determining whether the Acquisition is "reasonable", including the following:

- the Vendors' pre-existing voting power in the securities of Freshtel. In this regard, we note that the Vendors do not hold any pre-existing voting power in the securities of Freshtel;
- other significant security holding blocks in Freshtel. In this regard we note that upon completion of the Transactions, the Vendors will hold voting interests in Freshtel of between 51.1% and 56.2%;
- the liquidity of the market in Freshtel's securities;
- taxation losses, cash flow or other benefits through achieving control of Freshtel;
- any special value of Freshtel to the Vendors, such as particular technology, the potential to write off outstanding loans from the target, etc;
- the likely market price if the Acquisition is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

## 3.2. PKFCF's Approach

PKFCF has undertaken the following in assessing the Acquisition.

### 3.2.1. "Fair"

In our opinion, the Acquisition will be "fair" if:

- the current fair market value of a Freshtel Share on a control basis (post-Consolidation) as at 30 November 2016 ("**Valuation Date**");

is less than,

- the estimate fair market value of a Freshtel Share on a minority basis (post-Consolidation) assuming completion of the Transactions (including the Acquisition) had occurred at the Valuation Date.

### 3.2.2. "Reasonable"

Under RG 111, the Acquisition will be "reasonable" if it is "fair". The Acquisition may also be "reasonable" if, despite being "not fair", there are sufficient reasons for Non-Associated Shareholders to approve the Acquisition in the absence of any superior opportunities at the time of voting.

This assessment has largely been undertaken by considering whether in our opinion, the advantages of approving the Acquisition sufficiently outweigh the disadvantages for Non-Associated Shareholders as a whole.

Having regard to the factors listed by ASIC in RG 111.13, we considered the following factors in assessing the reasonableness of the Offer:

- the pre-existing voting power of the Vendors in Freshtel. In this regard, we note that the Vendors do not hold any pre-existing voting power in Freshtel;
- significant security holdings in Freshtel pre and post-Offer;
- the liquidity of the market Freshtel's securities;
- taxation losses, cash flow or other benefits of the Acquisition;
- any special value of Freshtel the Vendors and/of FSG;
- the likely market price if the Acquisition is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

# 4. Profile of Freshtel Holdings Ltd

## 4.1. Background

Founded in January 2004, Freshtel is an Australian based company headquartered in Melbourne, Victoria.

Freshtel was one of the first companies to introduce voice over internet protocol (“**VOIP**”) telephony in Australia and has provided VOIP based phone services, in other words, internet phones, for over a decade both nationally and internationally.

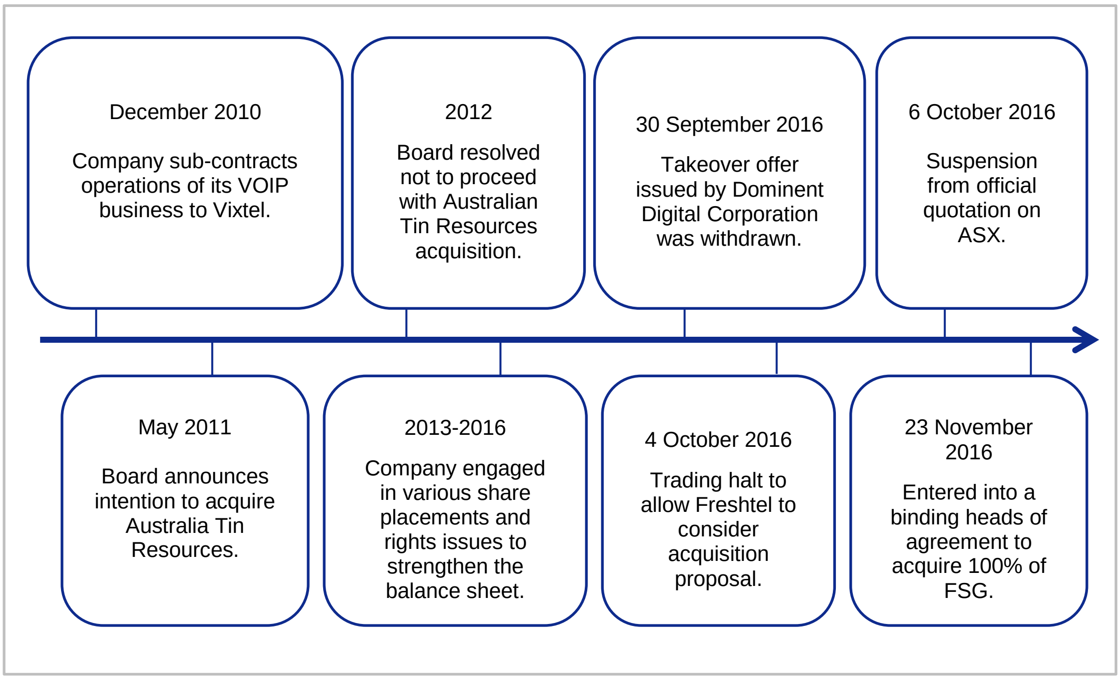
As at the date of this Report we note that the Company’s operations are minimal having sub-contracted its VOIP business to Vixtel Pty Ltd (“**Vixtel**”). The Company currently has no employees apart from the Directors noted in **Section 4.4** of this Report.

The Company recorded minimal revenue and expenses during the most recent financial year ending 30 June 2016.

## 4.2. History and Timeline

Set out below is a timeline of key historical events in Freshtel’s timeline from 2010 to date:

**Figure 1: Freshtel Timeline**




***Source***: Management of Freshtel Holdings Limited

## 4.3. Ownership & Share Trading Analysis

### 4.3.1. Ordinary Shares on Issue

As at the date of this Report, Freshtel has 1,723,037,677 shares on issue. Set out below are the top twenty (20) shareholders of Freshtel as at 5 December 2016:

**Table 4: Top Twenty (20) Shareholders of Freshtel as at 5 December 2016**

| # | Shareholders | Balance | % Held |
|---|---|---|---|
| 1 | DOMINET DIGITAL CORPORATION | 151,683,491 | 8.80% |
| 2 | BRUCAR PTY LTD | 125,644,444 | 7.29% |
| 3 | MRS SANDRA DI IULIO | 102,686,657 | 5.96% |
| 4 | CITYSTYLE HOLDINGS PTY LTD | 92,408,114 | 5.36% |
| 5 | ROGER J LANG NOMINEES PTY LTD | 84,096,871 | 4.88% |
| 6 | BOUNDARY NOMINEES PTY LTD | 74,648,103 | 4.33% |
| 7 | LIBERTY INVESTING PTY LTD | 66,666,667 | 3.87% |
| 8 | NIGHTFALL PTY LTD | 56,533,207 | 3.28% |
| 9 | RICHSHAM NOMINEES PTY LTD | 50,000,000 | 2.90% |
| 10 | MR JASON LESLIE GREEN & | 40,000,000 | 2.32% |
| 11 | ISASEL PTY LTD | 33,716,344 | 1.96% |
| 12 | IR & TJ DUNN INVESTMENTS PTY | 32,302,223 | 1.87% |
| 13 | MS LAIRE LIND | 28,042,448 | 1.63% |
| 14 | THE ALPINE BARK HUT PTY | 26,666,667 | 1.55% |
| 15 | ALITIME NOMINEES PTY LTD | 24,267,001 | 1.41% |
| 16 | TESCO PLC | 26,636,423 | 1.55% |
| 17 | PINERY INVESTMENTS PTY LTD | 25,671,111 | 1.49% |
| 18 | BOND STREET CUSTODIANS LIMITED | 25,901,994 | 1.50% |
| 19 | CASNEY PTY LTD | 23,358,146 | 1.36% |
| 20 | MR DAVID CHARLES NEESHAM & | 20,000,000 | 1.16% |
| **Total Top 20 Shareholders** | | **1,110,929,911** | **64.48%** |
| Other Shareholders | | 612,107,766 | 35.52% |
| **All Shareholders** | | **1,723,037,677** | **100.00%** |

***Source*** : Freshtel Holdings Limited management

In relation the above, we note the following:

- the top twenty (20) shareholders comprise the majority of shareholders holding 64.48% of total shares on issue;
- Dominet Digital Corporation proposed an on-market takeover offer of Freshtel during 2016 which was subsequently withdrawn following little support from shareholders and difficulties with underwriting agreement negotiations; and
- overall, there is no single Shareholder who holds a significant voting interest in Freshtel.

We note that upon completion of the Consolidation (but before the Acquisition, Capital Raising and issue of the Facilitator Shares and Director Shares), Freshtel will have 34,460,754 shares on issue.

### 4.3.2. Options on Issue

In addition to the Shares on issue, Freshtel has 121,664,523 options on issue. Set out below are the top twenty (20) option holders of Freshtel as at the date of this Report:

**Table 5: Top Twenty (20) Option Holders of Freshtel as at the date of this Report**

| # | Options Holders | Balance | % Held |
|---|---|---|---|
| 1 | ALITIME NOMINEES PTY LTD | 25,700,522 | 21.12% |
| 2 | NIGHTFALL PTY LTD | 24,511,492 | 20.15% |
| 3 | DOMINET DIGITAL CORPORATION | 11,577,569 | 9.52% |
| 4 | RICHSHAM NOMINEES PTY LTD | 6,250,000 | 5.14% |
| 5 | WILLOWDALE HOLDINGS PTY LTD | 6,082,853 | 5.00% |
| 6 | BLU BONE PTY LTD | 5,480,550 | 4.50% |
| 7 | JASPER HILL RESOURCES PTY LTD | 5,480,550 | 4.50% |
| 8 | KOBIA HOLDINGS PTY LTD | 5,480,550 | 4.50% |
| 9 | BRUCAR PTY LTD | 3,926,389 | 3.23% |
| 10 | CITYSTYLE HOLDINGS PTY LTD | 2,887,754 | 2.37% |
| 11 | ROGER J LANG NOMINEES PTY LTD | 2,721,777 | 2.24% |
| 12 | MRS SANDRA DI IULIO | 2,514,514 | 2.07% |
| 13 | MR DAVID CHARLES NEESHAM & | 2,500,000 | 2.05% |
| 14 | BOUNDARY NOMINEES PTY LTD | 2,332,753 | 1.92% |
| 15 | LIBERTY INVESTING PTY LTD | 2,083,333 | 1.71% |
| 16 | MR JASON LESLIE GREEN & | 1,125,000 | 0.92% |
| 17 | IR & TJ DUNN INVESTMENTS PTY | 1,009,445 | 0.83% |
| 18 | MS LAIRE LIND | 876,327 | 0.72% |
| 19 | THE ALPINE BARK HUT PTY | 833,333 | 0.68% |
| 20 | PINERY INVESTMENTS PTY LTD | 802,222 | 0.66% |
| **Total Top 20 Option Holders** | | **114,176,933** | **93.85%** |
| Other Option Holders | | 7,487,590 | 6.15% |
| **All Option Holders** | | **121,664,523** | **100.00%** |

***Source*** : Freshtel Holdings Limited management

In relation to the above we note the following:

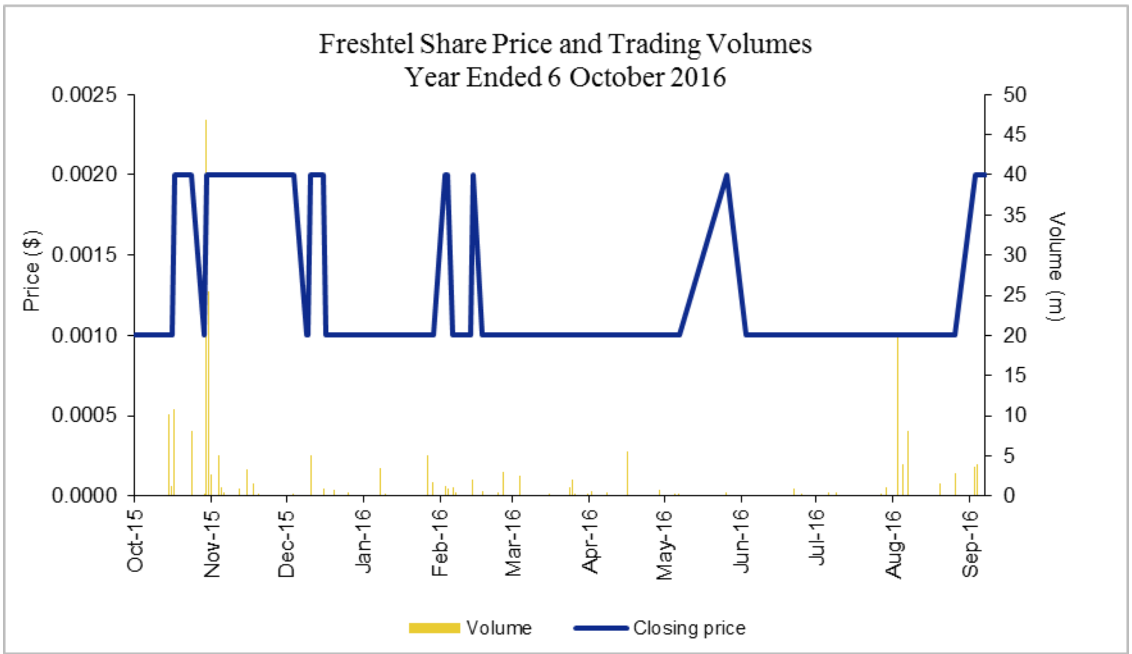
- upon completion of the Consolidation (but before the Acquisition, Capital Raising and issue of the Facilitator Shares and Director Shares), Freshtel will have 2,433,290 options on issue;
- all options have an exercise price of $0.0025 (pre-Consolidation) or $0.1250 (post-Consolidation); and
- all options are exercisable at any time up to 30 September 2020 at the election of the option holder.

### 4.3.3. Share Trading Analysis

The shares of Freshtel have been in a voluntary trading halt since 4 October 2016 and were subsequently suspended from official quotation on 6 October 2016.

Set out below is a chart setting out movements in the Freshtel's share price and trading volumes for the year prior to the voluntary trading halt in 4 October 2016:

**Figure 2: Freshtel Share Price and Trading Volumes**




Set out below is a volume weighted average price ("**VWAP**") analysis of Freshtel's shares up to 6 October 2016:

**Figure 3: Freshtel Shares VWAP Analysis**

| Period | Price (low) $ | Price (high) $ | Price VWAP $ | Cumulative value $m | Cumulative volume m | % of issued capital |
|---|---|---|---|---|---|---|
| 1 week | 0.0020 | 0.0020 | 0.0020 | 0.0160 | 8.0 | 0.5 |
| 1 month | 0.0010 | 0.0020 | 0.0017 | 0.0277 | 16.1 | 1.0 |
| 3 months | 0.0010 | 0.0020 | 0.0012 | 0.0635 | 51.9 | 4.2 |
| 6 months | 0.0010 | 0.0020 | 0.0012 | 0.0765 | 64.4 | 5.3 |
| 12 months | 0.0010 | 0.0030 | 0.0016 | 0.3458 | 215.4 | 18.7 |

***Source*** : S&P Capital IQ

In relation to the above we note the following:

- Freshtel has witnessed minimal trading activity in its Shares in the year prior to the 6 October 2016 trading halt with a share trading turnonver of 18.7% on an annual basis;
- Freshtel's Shares have been trading within $0.0010 and $0.0020 during the year ended 6 October 2016; and
- the VWAP of Freshtel is $0.0016 for the 12 months to 6 October 2016.

***Other Share Transactions***

Subsequent to 30 June 2016, the following transactions of Freshtel's shares took place:

- on 19 September 2016, the Company completed a fully underwritten non-renounceable rights issue on a 1:3 basis at $0.001 per share with an attached free options on a 1:8 basis. The rights issue raised approximately $0.37 million after costs;

- on 23 September 2016 the Company made a placement to private investors of 224,735,237 ordinary shares at $0.001 per share to raise approximately $0.22 million after costs;
- on 3 October 2016, 46,072 options were exercised at $0.0025 per option raising $11,518; and
- on 2 November 2016, 21,047 options were exercised at $0.0025 per option raising $5,262.

## 4.4. Board of Directors

Set out below is an overview of the current board of directors of Freshtel as at the date of this Report:

**Table 6: Board of Directors of Freshtel**

| Name | Detail |
|---|---|
| **Mr Peter Buttery**<br>*Chairman and Non-Executive Director* | Mr Buttery was elected to the Freshtel board on 23 November 2010 and is qualified as a Chartered Accountant. Prior to joining Freshtel Peter was a Partner of Deloitte for 28 years until 1998 and was the audit partner responsible for several listed companies including advising on numerous corporate finance strategies.<br>From 1998, he acted as a financial strategy consultant and company director and is a member of the Australia Institute of Company Directors. He has also previously held positions with other listed entities including as Chairman of Ribloc Group Ltd, Chariot Internet Ltd, Chevalier Pipe Technologies GMBH, Norditube Technologies AM and Enterprise Energy Ltd. Mr Buttery is currently a director of several large family companies.<br>We understand following the successful completion of the Acquisition Mr Buttery will resign as a director of the Company. |
| **Mr Matt Ranawake**<br>*Non-Executive Director* | Mr Ranawake was elected to the board on 23 November 2010 and has over 20 years of experience in the telecommunications industry in Asia Pacific, Australia, India and China, combined with a strong background in finance, mergers and acquisitions, information systems, sales, change management, strategy and business development across a number of industries.<br>Until recently, Mr Ranawake was the Chief Financial Officer of Konekt Limited, a ASX listed workplace health solutions provider. Prior to that, he was the CFO of Consistel Group in Singapore where he was instrumental in raising funds from Intel Capital and JAFCO Asia. Prior to joining Consistel, Mithila was the CFO of LongReach Group Limited, an ASX listed Australian telecommunications equipment manufacturer and vendor, where he was involved in raising capital and managing its merger. He has held senior management positions in Telstra Corporation, British Telecom and Marconi. Mithila also has several years of experience in gas, electric and petroleum industries.<br>We understand following the successful completion of the Acquisition Mr Ranawake will remain as a director of the Company. |
| **Dr Kenneth Carr**<br>*Non-Executive Director* | Dr Carr joined the Freshtel board in February 2009. He has formerly held CEO and board positions on several listed Australian and overseas entities, most recently as CEO of INTECQ Limited.<br>Previously he has held a number of senior executive positions at IBM, British Telecom, AT&T and Lucent Technologies. Dr Carr's main experience relates to corporate restructuring and recovery transformation which has included several joint ventures, mergers and acquisitions in a range of countries.<br>We understand following the successful completion of the Acquisition Dr Carr will remain as Chairman of the Company. |

| Name | Detail |
|---|---|
| **Mr Graham Henderson**<br>Company Secretary | Currently Mr Henderson is the Company Secretary and Acting Chief Financial Officer of Freshtel.<br>We understand following the successful completion of the Acquisition that Mr Henderson will step down as Company Secretary to be replaced by Mr Ranawake. |

***Source***: ASX; Freshtel Holdings Limited management

## 4.5. Historical Income Statements

The historical consolidated income statements of Freshtel for the years ended 30 June 2014, 2015, 2016 and for the five (5) months ended 30 November 2016, are summarised in the table below:

**Table 7: Freshtel Historical Consolidated Income Statements**

| | Year Ended 30 June | | | 5 Months to 30 Nov 2016 (Management Accounts) |
|---|---|---|---|---|
| | 2014 (Audited) | 2015 (Audited) | 2016 (Audited) | |
| Revenue | 107,610 | 68,067 | 48,287 | 15,036 |
| Other Income | 932 | 1,406 | 106 | 305 |
| Directors Fees Written Back Prior Years | 165,680 | - | - | - |
| Professional Services Expense | (95,200) | (90,105) | (101,941) | (25,000) |
| Capital Invesment Expense | (44,137) | (36,479) | - | - |
| VOIP Operations Cost | (107,610) | (68,067) | (48,287) | (15,036) |
| Occupancy and Facilities Expense | (24,980) | (31,112) | (28,993) | (11,204) |
| Listing and Registry Expense | (34,958) | (31,789) | (30,476) | (18,452) |
| Other Expenses | - | - | - | - |
| **Total Operating Expenses** | **(306,885)** | **(257,552)** | **(209,697)** | **(69,692)** |
| **Net Profit Before Tax** | **(32,663)** | **(188,079)** | **(161,304)** | **(54,351)** |
| Income Tax Expense | - | - | - | - |
| **Net Profit After Tax** | **(32,663)** | **(188,079)** | **(161,304)** | **(54,351)** |

***Source*** : Freshtel Holdings Limited annual reports for the year ended 30 June 2014, 2015 and 2016; Freshtel Holdings Limited management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

In relation to the above we note the following:

- with the VOIP business being sub-contracted since February 2010 there has been minimal financial activity through the Company;
- the outsources VOIP operations result in a break-even profit position over each of the periods; and
- all other expenses relate to those associated with maintaining the Company as a listed entity.

## 4.6. Historical Statements of Financial Position

The historical consolidated statements of financial position of Freshtel as at 30 June 2014, 2015, 2016 and as at 30 November 2016 are summarised in the table below:

**Table 8: Freshtel Historical Consolidated Statements of Financial Position**

| | As at 30 June | | | As at 30 Nov 2016 (Management Accounts) |
|---|---|---|---|---|
| | 2014 (Audited) | 2015 (Audited) | 2016 (Audited) | |
| **Current Assets** | | | | |
| Cash and Cash Equivalents | 402,534 | 225,206 | 54,401 | 460,765 |
| Prepayments | 9,259 | 9,183 | 9,267 | 9,205 |
| **Total Current Assets** | **411,793** | **234,389** | **63,668** | **469,970** |
| **Total Assets** | **411,793** | **234,389** | **63,668** | **469,970** |
| **Current Liabilities** | | | | |
| Trade and Other Payables | 24,610 | 35,285 | 25,868 | 30,108 |
| **Total Current Liabilities** | **24,610** | **35,285** | **25,868** | **30,108** |
| **Total Liabilities** | **24,610** | **35,285** | **25,868** | **30,108** |
| **NET ASSETS** | **387,183** | **199,104** | **37,800** | **439,862** |
| **Equity** | | | | |
| Issued Capital | 39,365,457 | 39,377,824 | 39,377,824 | 39,834,238 |
| Retained Earnings | (38,978,274) | (39,178,720) | (39,340,024) | (39,394,376) |
| **TOTAL EQUITY** | **387,183** | **199,104** | **37,800** | **439,862** |

***Source*** : Freshtel Holdings Limited annual reports for the year ended 30 June 2014, 2015 and 2016; Freshtel Holdings Limited management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

In relation to the above we note the following:

- cash and cash equivalents increased significantly between 30 June 2016 and 30 November 2016 as a result of various capital raising activities including:
  - on 19 September 2016, the Company completed a fully underwritten non-renounceable rights issue on a 1:3 basis at $0.001 per share with an attached free options on a 1:8 basis. The rights issue raised approximately $0.37 million after costs;
  - on 23 September 2016 the Company made a placement to private investors of 224,735,237 ordinary shares at $0.001 per share to raise approximately $0.22 million after costs;
  - on 3 October 2016, 46,072 options were exercised at $0.0025 per option raising $11,518; and
  - on 2 November 2016, 21,047 options were exercised at $0.0025 per option raising $5,262,
- prepayments of $9,205 as at 30 November 2016 relates to ASX fees and D&O Insurance;
- trade and other payables was $30,108 as at 30 November 2016 in relation to standard obligations as a reporting entity. We note this amount has remained stable over the duration of the above financial periods; and
- issued capital increased by approximately $0.46 million between 30 June 2016 and 30 November 2016 as a result of the capital raising activities detailed above.

## 5. Profile of Field Solutions Group Pty Ltd

### 5.1. Introduction

Founded in 2012, FSG is a licenced Australia Telecommunications Carrier and provider of cloud computing infrastructure, applications and services, primarily to customers in regional Australia. FSG is currently based in Belrose, NSW.

Initially, FSG provided cloud application development services. As the business has grown, it has increased its focus on providing both cloud services and telecommunications services to clients across regional Australia.

In May 2012, FSG acquired a small software development company which held a software development and maintenance contract with Surf Lifesaving Australia which remains a significant client of FSG to this day.

In June 2016, FSG acquired the intellectual property surrounding the "Field Audit" application from an entity associated with Mr Andrew Roberts and Mrs Wendy Tyberek, directors of Freshtel, for $625,000.

### 5.2. Products & Services

FSG provides a range of products and services which fall under two broad umbrellas; "managed services" and "software development" as follows:

**Figure 4: Summary of FSG's Products & Services**

| Managed Services | Software Development |
|---|---|
| • Cloud Hosting Services<br>• Cloud Transition Services<br>• Business ICT Strategy Support Services<br>• Telecom Services | • Development, maintenance and support of Cloud based enterprise software<br>• Development, maintenance and support of Non-Cloud Based enterprise software |

Further details regarding FSG's products and services are detailed below.

#### 5.2.1. Managed Services

***Cloud Hosting Services***

FSG provides Managed Application Services that include enterprise applications including:

- enterprise resource planning ("**ERP**");
- client relationship management ("**CRM**")
- supply chain management ("**SPM**");
- human resources technology;
- custom-built applications;
- office suites; and
- e-mail services.

FSG also provides key services including database management, server management, desktop management and network management.

#### *Cloud Transition Services*

FSG provides consulting services to a range of private enterprise and government clients in relation to their transaction to cloud technologies.

FSG provide specialised services around:

- Amazon Web Services;
- Google Cloud Platform;
- Microsoft Azure;
- Public, private and hybrid cloud solutions.

Transition consulting services cover a range of areas including cloud infrastructure, e-mail and messaging, back-ups, disaster recovery and security.

#### *Business Information & Communication Technology ("ICT") Strategy Support Services*

FSG provides a range of business ICT strategy support services including:

- IT strategy assessment and roadmap consulting services;
- cloud strategy consulting services;
- technology cost optimisation consulting services; and
- IT performance consulting services.

These consulting services cover software, cloud and telecommunications as well as general IT operations.

#### *Telecom Services*

As a licensed Australian telecommunication carrier, FSG is able to offer end-to-end cloud services to customers including a range of telecom services incorporating:

- dark fibre;
- wireless;
- microwave;
- Ethernet;
- National Broadband Network ("**NBN**");
- Satellite; and
- VOIP and data services.

FSG provides wholesale and retail telecommunications services via its own network (trading as JUST ISP) to regional Australia across New South Wales, Victoria, Queensland and Tasmania including residential, business and community services clients. It also provides national clients including regional and state government organisations.

### 5.2.2. Software Development

FSG provides specialised and bespoke software design and build services to a range of private enterprise and government clients. FSG provides it clients with a end-to-end solutions from inceptions, right through the design and build stages and then ongoing software upgrades, maintenance and support services.

Key customers include Surf Lifesaving Australia and Sydney University.

FSG has also developed a cloud application suite for use by non-office based field workers known as "Field Audit". Field Audit is a mobile inspection and auditing tool which enables field-based organisations to conduct audits and/or inspections in an efficient and accurate manner.

### 5.3. Directors

Set out below is an overview of the directors of FSG as at the date of this Report.

We note that upon completion of the Acquisition, Mr Andrew Roberts will become a director of Freshtel. In addition, we note that upon completion of the Acquisition, Wendy Tyberek will resign as a director of FSG.

**Table 9: Board of Directors of FSG**

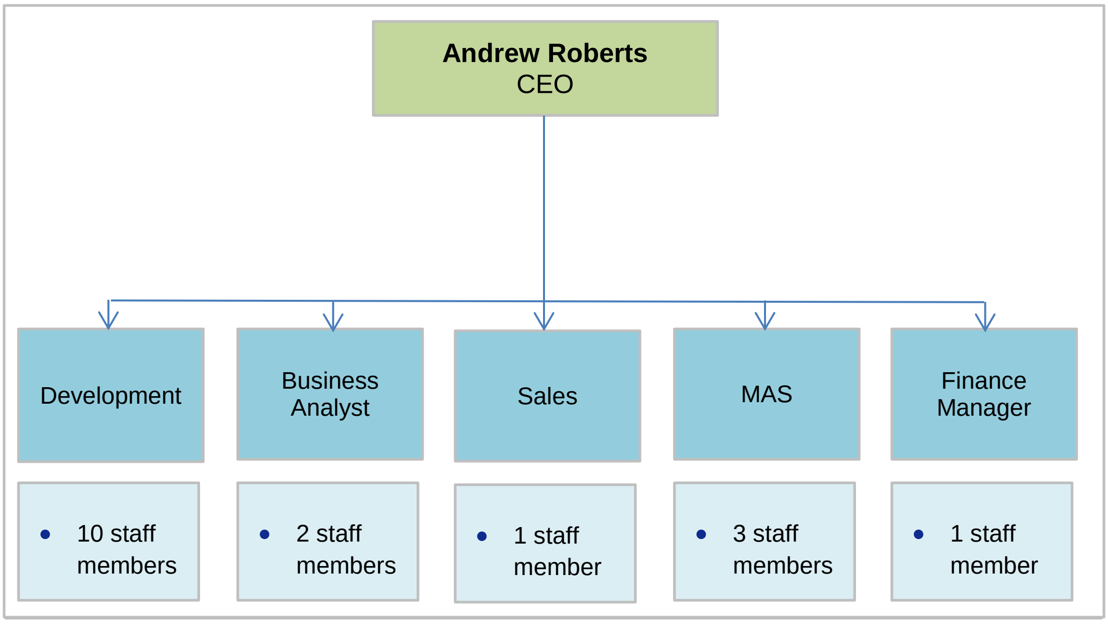
| Name | Detail |
|---|---|
| **Andrew Roberts**<br>*Director* | Andrew is the CEO of FSG and has over 25 years' experience in the financial services IT industry in Australia, New Zealand, Asia Pacific and the United Kingdom. He has extensive strategic IT and commercial experience in business aggregation, analysis, strategy, sales, marketing, professional services, operations and general management. Andrew's primarily focuses on IT, technical strategy and IT services delivery.<br>Previously he has served as CIO and head of strategy and cloud for Rubik Financial Limited, a consultant for EY, strategy manager for IAG and additional roles with Solution 6, ComOps and HCS.<br>We understand following the successful completion of the Acquisition Mr Roberts will become a director of the Company. Mr Roberts, along with Ms Tyberek, also controls the sole shareholder of FSG (i.e. the Vendor or Convergent). |
| **Wendy Tyberek**<br>*Director* | Wendy has over 25 years' experience in the accountancy industry and in internet based learning and technology for professionals in Australia and the UK. She leads the development of online capabilities and is responsible for the finance, compliance and reporting functions within FSG.<br>Previously she has been employed as a chartered accountant at Deloitte, Solutions 6 Australia and UK major account manager and product manager in addition to roles with MYOB and ComOps.<br>We understand following the successful completion of the Acquisition, Ms Tyberek will not become a director of the Company. Ms Tyberek, along with Mr Roberts, also controls the sole shareholder of FSG (i.e. the Vendor or Convergent). |

***Source***: Field Solutions Group Pty Ltd management

## 5.4. Organisational Structure

Set out below is a summary of FSG's organisational structure as at the date of this Report:

**Table 10: FSG Organisational Structure**

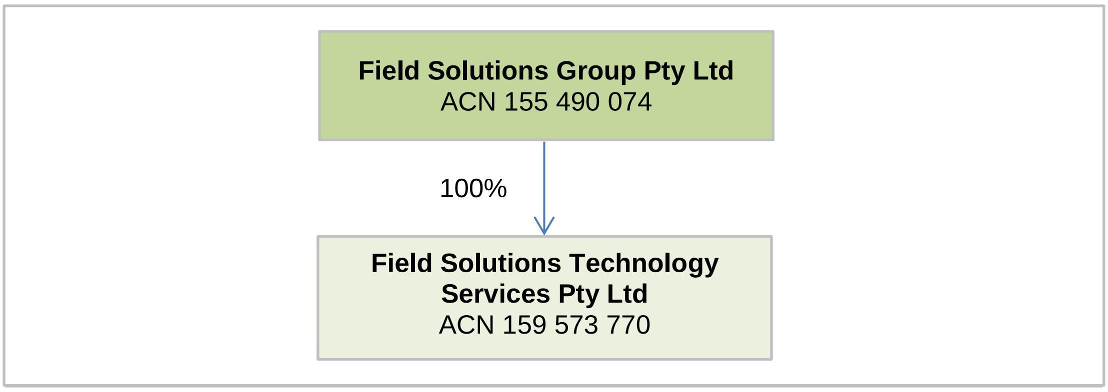



***Source***: FSG management

## 5.5. Corporate Structure

Set out below is a summary of FSG's organisational structure as at 30 November 2016:

**Table 11: FSG Corporate Structure**




***Source***: FSG management

Further to the above, we note that Convergent Technology Holdings Pty Ltd ("**Convergent**") is the sole shareholder of FSG (i.e. Convergent is the Vendor).

Convergent is a private company controlled by Mr Andrew Roberts (a current director of FSG and proposed director of Freshtel) and his wife, Ms Wendy Tyberek.

## 5.6. Historical & Budgeted Income Statements

Set out below are the historical consolidated income statements of FSG for the years ended 30 June 2014, 2015 and 2016 and for the five (5) months ended 30 November 2016, and the budgeted consolidated income statements of FSG for the year ending 30 June 2017:

**Table 12: FSG Historical Consolidated Income Statements**

| | Year Ended 30 June | | | 5 Months to 30 Nov 2016 (Management Accounts) | Year Ending 30 June 2017 (Budget) |
|---|---|---|---|---|---|
| | 2014 (Audited) | 2015 (Audited) | 2016 (Audited) | | |
| Revenue | 1,228,558 | 2,974,638 | 5,053,463 | 2,201,855 | 5,532,823 |
| Communication and ISP Costs | (204,925) | (1,210,643) | (1,216,032) | (628,145) | (1,542,812) |
| Employee Benefit Expenses | (418,435) | (1,163,481) | (1,538,192) | (658,730) | (1,763,825) |
| Production Costs | (257,237) | (370,142) | (163,119) | (76,640) | (76,640) |
| Administration Expenses | (57,950) | (76,388) | (156,518) | (101,949) | (157,949) |
| Occupancy Expense | (27,381) | (21,545) | (137,695) | (70,076) | (133,076) |
| Software and Equipment Maintenance | (30,620) | (144,394) | (115,571) | (41,453) | (41,453) |
| Depreciation and Amortisation | (20,757) | (16,834) | (123,456) | - | - |
| Management Fee | (135,000) | (245,000) | (296,425) | (149,373) | (324,373) |
| Finance Costs | - | - | (6,232) | - | - |
| **Total Expenses** | **(1,152,305)** | **(3,248,427)** | **(3,753,240)** | **(1,726,366)** | **(4,040,128)** |
| **Net Profit Before Tax** | **76,253** | **(273,789)** | **1,300,223** | **475,490** | **1,492,696** |
| Income Tax Expense | 42,384 | 149,082 | (236,975) | - | - |
| **Net Profit After Tax** | **118,637** | **(124,707)** | **1,063,248** | **475,490** | **1,492,696** |

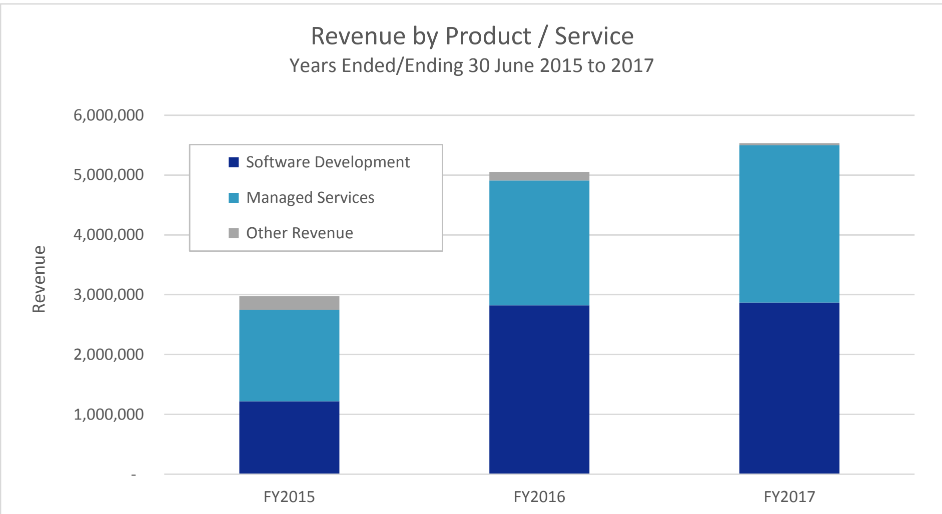
***Source*** : FSG audited special purpose financial statements for the years ended 30 June 2014, 2015 and 2016; FSG management accounts for the five (5) months ended 30 November 2016; FSG budget for the year ending 30 June 2017; PKFCF Analysis

In relation to the above, we provide the following commentary:

***Revenue***

- over the years ended 30 June 2015 and 2016, FSG has experienced strong revenue growth of approximately 142% and 70% respectively. Revenue growth for the year ending 30 June 2017 is budgeted to be approximately 9.5%;
- revenue growth has been driven across all of FSG's main products and services. Set out below is a split of revenue by FSG's main product and service offerings over the years ended/ending 30 June 2015 to 2017:

**Figure 5: Split of Revenue by Product & Service**



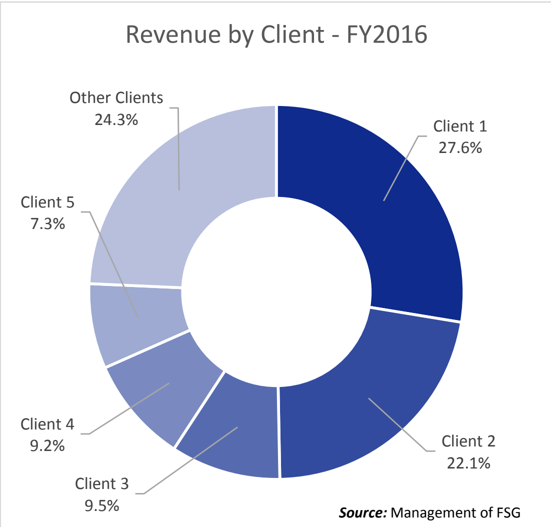
In relation to the above, we note the following:

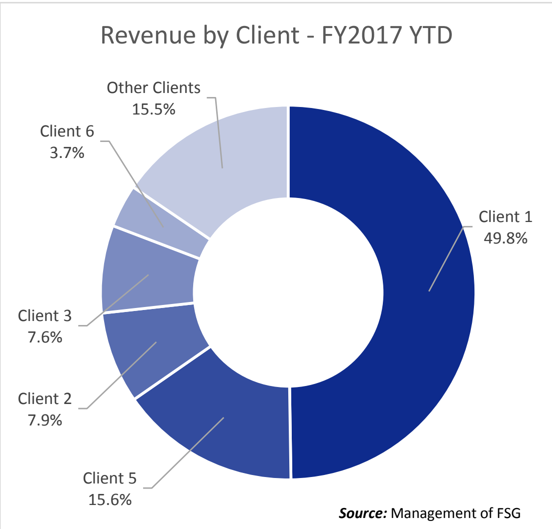
  - revenue from software development accounted for approximately 41%, 56% and 52% of total revenue in FY2015, FY2016 and FY2017 (budget) respectively; and
  - revenue from managed services accounted for approximately 51%, 41% and 48% of total revenue in FY2015, FY2016 and FY2017 (budget) respectively.

- growth in software development revenue in FY2016 was predominately driven by the following factors:
  - a substantial software development project being mainly completed during the period for a major Australian bank. This development project has been extended in FY2017. In addition, FSG continues to provide ongoing maintenance and hosting services in relation to this project; and
  - a substantial software development project being mainly completed during the period for a major Australian university. FSG continues to provide ongoing development, maintenance and hosting services in relation to this project;
- software development revenue in FY2017 is budgeted to remain fairly comparable to FY2016 results mainly due to continued work for existing clients;
- growth in managed services revenue in FY2016 and FY2017 (budgeted) was / is expected to be driven by the following factors:
  - a focus on the niche regional market which has historically, not been well serviced by larger managed service and ISP providers;
  - increased hosting revenue as software development projects have reached initial conclusion and converted to ongoing projects; and
  - strong growth in telco customers, particularly in rural sectors where FSG has established a niche subsequent to the rollout of the NBN;

  We note that the revenue from managed services is recurring in nature, usually under contract with a minimum term of 12 months.
- set out below is a breakdown of revenue by client for FY2016 and the five months to 30 November 2016 ("**FY2017 YTD**"). The top five (5) clients for each period (by revenue) have been separately identified with revenue from all other clients grouped together:

**Figure 6: Split of Revenue by Client**



In relation to the above, we note the following:

- one client represented the largest portion of revenue in FY2016 and FY2017 YTD, accounting for 27.6% and 49.8% of total revenue respectively.

  We have been advised that FSG provides both software development and managed services to this client. These services relate to the development, maintenance and hosting of a bespoke cloud-based compliance platform used by a major Australian bank. We have been advised that this client is a long standing client of FSG and given the nature of the software, management of FSG expect this contract to continue beyond 30 June 2017;

- in total, the top five (5) clients accounted for 75.7% and 84.5% of total revenue in FY2016 and FY2017 YTD respectively; and

- we have been advised by management of FSG that the above trends in client concentration are not expected to vary significantly in the short to medium terms;

- in constructing the revenue budget for FY2017, we note that management have adopted the following approach:

  - in relation to budgeted software development revenue, FSG management have only included revenue where:

    - development projects span pre and post 30 November 2016;
    - ongoing recurring development revenue is expected to continue in the short term; and/or
    - FSG have undertaken paid scoping work for new projects, but for existing clients, and where management expect a greater than 80% chance of the project proceeding; and/or
    - where work is essential to the continued operation of systems already developed by FSG; and/or
    - existing clients have a history of ongoing projects using the services of FSG;

  - in relation to budgeted managed services revenue (excluding JUST ISP revenue), FSG management have only included revenue in the cases that FSG has exiting contracts (i.e. no “blue sky” revenue is included in the budget to 30 June 2016); and

  - in relation to budgeted JUST ISP revenue, FSG management have only included revenue where:

    - in the case of existing clients, services are already being provided or where additional opportunities (e.g. in the case of addition client venues or locations) have been identified with the client expected to proceed; or
    - in the case of new clients, FSG management have already been in advanced discussions with the potential new clients and where they believe that they is a high degree of probability that the opportunity will proceed.

***Expenses***

- in general, overhead expenses (excluding depreciation, amortisation and finance costs) are expected to increase by approximately 11.5% in FY2017 compared to FY2016;

- the main drivers of this growth in overhead expenses relate to variable project costs including:

  - communication and ISP costs;
  - production costs;

- contractor and employee expenses are expected to increase by approximately 5.6%, driven by the employment of new finance and sales staff;

- software and equipment maintenance expenses are expected to decrease in FY2017 compared to FY2016 driven by the fact that in FY2016, a number of client projects required one-off software expenditures which are not expected to be repeated; and
- management fees relate to remuneration of related parties. We have been advised that this expense will be replace by a direct remuneration package to Mr Andrew Roberts as outlined in section 6.4 of the Explanatory Statement.

## 5.7. Historical Statements of Financial Position

The historical consolidated statements of financial position of FSG as at 30 June 2014, 2015, 2016 and as at 30 November 2016 are summarised in the table below:

**Table 13: FSG Historical Consolidated Statements of Financial Position**

| | Note / Report Reference | As at 30 June | | | As at 30 Nov 2016 | | |
|---|---|---|---|---|---|---|---|
| | | 2014 (Audited) | 2015 (Audited) | 2016 (Audited) | (Management Accounts) | PKF Adjustments | Adjusted |
| **Current Assets** | | | | | | | |
| Cash and Cash Equivalents | | 64,322 | 29,406 | 107,541 | 185,259 | - | 185,259 |
| Trade and Other Receivables | 1 | 155,961 | 411,391 | 819,718 | 1,104,231 | - | 1,104,231 |
| Current Tax Assets | | 42,384 | 149,082 | - | - | - | - |
| **Total Current Assets** | | **262,667** | **589,879** | **927,259** | **1,289,490** | **-** | **1,289,490** |
| **Non-Current Assets** | | | | | | | |
| Plant and Equipment | 2 | 36,613 | 58,269 | 213,611 | 312,719 | - | 312,719 |
| Intangible Assets | 3 | - | - | 625,000 | 625,000 | - | 625,000 |
| **Total Non-Current Assets** | | **36,613** | **58,269** | **838,611** | **937,719** | **-** | **937,719** |
| **Total Assets** | | **299,280** | **648,148** | **1,765,870** | **2,227,209** | **-** | **2,227,209** |
| **Current Liabilities** | | | | | | | |
| Trade and Other Payables | 4 | 154,482 | 603,363 | 565,972 | 400,069 | - | 400,069 |
| Current Tax Liabilities | 5 | - | - | 87,893 | 87,893 | 226,127 | 314,020 |
| Provisions | 6 | 16,631 | 41,325 | 45,297 | 45,297 | 27,397 | 72,694 |
| **Total Current Liabilities** | | **171,113** | **644,688** | **699,162** | **533,259** | **253,524** | **786,783** |
| **Total Liabilities** | | **171,113** | **644,688** | **699,162** | **533,259** | **253,524** | **786,783** |
| **NET ASSETS** | | **128,167** | **3,460** | **1,066,708** | **1,693,950** | **(253,524)** | **1,440,426** |
| **Equity** | | | | | | | |
| Issued Capital | | 100 | 100 | 100 | 100 | - | 100 |
| Retained Earnings | | 128,067 | 3,360 | 1,066,608 | 1,693,850 | (253,524) | 1,440,326 |
| **Total Equity** | | **128,167** | **3,460** | **1,066,708** | **1,693,950** | **(253,524)** | **1,440,426** |

Source: FSG audited special purpose financial statements for the years ended 30 June 2014, 2015 and 2016; FSG management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

In relation to the above, we provide the following commentary:

### *Note 1: Trade & Other Receivables*

As at 30 November 2016, trade and other receivables comprised the following:

**Table 14: Trade & Other Receivables of FSG as at 30 November 2016**

| | As at 30 Nov 2016 (Management Accounts) |
|---|---|
| Trade Receivables | 929,371 |
| Related Party Loans Receivable | 174,860 |
| **Total** | **1,104,231** |

Source: FSG management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

We have been provided representations from the Vendors that 100% of the related party loans receivable will be repaid to FSG on or around the time of completion of the Acquisition.

***Note 2: Plant & Equipment***

Plant and equipment consists mainly of computer and ISP capital equipment as well as office fit out costs and a motor vehicle.

We have been used that all plant and equipment is used 100% in relation to FSG's business activities.

***Note 3: Intangible Assets***

As mentioned in **Section 5.1** above, in June 2016, FSG acquired the intellectual property surrounding the "Field Audit" application from an entity associated with Mr Andrew Roberts and Mrs Wendy Tyberek, directors of Freshtel, for $625,000. This acquisition has been recognised as an intangible asset by FSG.

***Note 4: Trade & Other Payables***

As at 30 November 2016, trade and other payables amounted to $400,069 and mainly comprised credit card liabilities and Australian Taxation Office liabilities including GST, employee withholding tax and superannuation liabilities.

In this regard, we note that credit card liabilities amounted to $157,843 and GST liabilities amounted to $171,975 as at 30 November 2016.

***Note 5: Current Tax Liabilities***

Current tax liabilities consist entirely of current income tax payable on earnings to date.

As at 30 November 2016, accounting adjustments had not been taken up to reflect movements in current income tax payable on earnings up to 30 November 2016. Accordingly, we have taken up an adjustment to reflect such movements based on information provided by FSG and previous tax practices of FSG.

***Note 6: Provisions***

Provisions consist entirely of employee annual leave entitlements.

As at 30 November 2016, accounting adjustments had not been taken up to reflect movements in employee annual leave entitlements subsequent to 30 June 2016. Accordingly, we have taken up an adjustment to reflect such movements based on leave entitlements reports provided by FSG as at 30 November 2016.

## 6. Industry Overview

### 6.1. Introduction

Following the completion of the Acquisition there will be a change in the nature and scale of the Company's business operations from telecommunications to telecoms and technology services provider. Effectively the operations of the Company will be that of FSG. FSG provides end-to-end solutions to its clients, predominantly in regional Australia, as a licenced Australian Telecommunications Carrier and provider of cloud computing infrastructure, applications and services.

As such we have reviewed the industries in which the Company will operate. In summary these industries broadly include telecommunications, software development and maintenance and cloud based services as detailed in the sections below.

### 6.2. Telecommunications

FSG operates in the telecommunications industry as a licenced Australian Telecommunications Carrier. This industry includes businesses that operate and maintain transmission and switching facilities to deliver direct communications through airwaves. It also includes companies that provide network services, wireless telecommunications and associated supply and maintenance equipment.

Industry revenue has grown at a steady rate over the past five years owing to the rapid uptake of smartphone and tablet usage driving demand for increased connectivity and higher data usage. According to an IBIS World report industry revenue is forecast to increase to $22.8 billion, an annualised 2.3% over the five years through to 2016-17. Despite this industry competition has remained intense as companies seek to differentiate through price and subscription value.

In future years, mobile subscription is expected to increase whilst at a slower rate as the market reaches saturation. Increasingly data usage is seen to replace traditional voice calls, SMS and MMS as smartphones become commonplace. Improved network capabilities as 4G takes over the market and pending introduction of 5G will further improve demand for mobile demand as users seek more video streaming and social networking services. Industry revenue is expected to rise at 2.6% on an annualised basis to $25.9 billion over the five years through to 2021-22 according to IBIS World data.

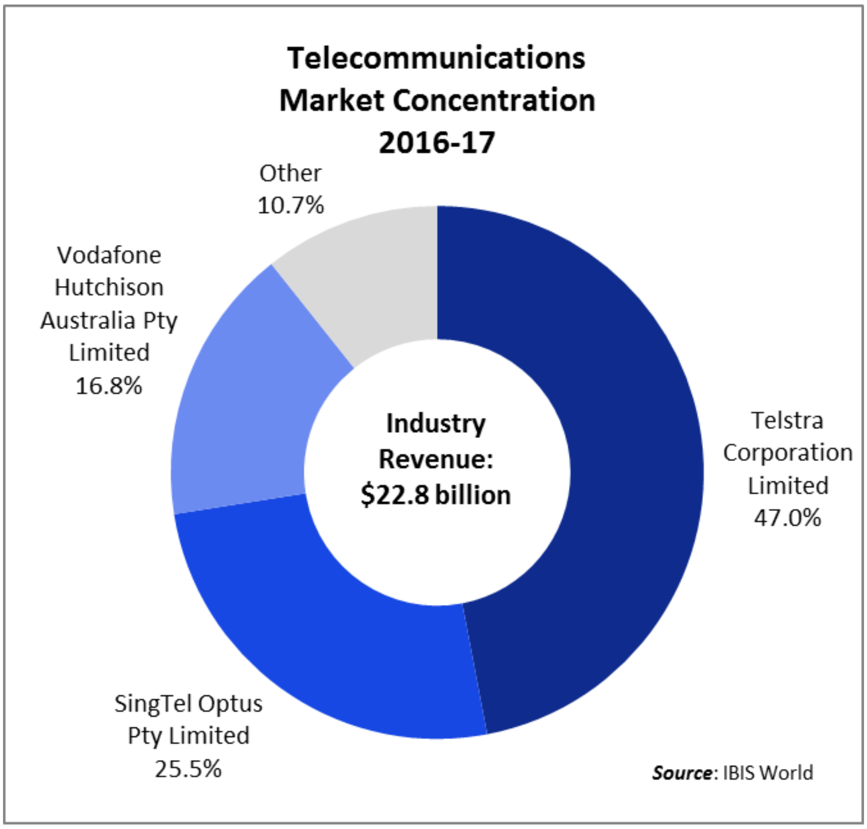
The key drivers of industry revenue include mobile telecommunications density, capital expenditure on computer software, demand from wired telecommunications network operation and real household disposable income.

Industry services are used by consumers, small and medium businesses, larger corporations, governments, broadcasters and other telecommunications firms.

The industry is characterised by high levels of market concentration with the three main industry players accounting for 90.0% of industry revenue. Since deregulation in 1997 industry competition has significantly increased, saturating the market given the isolated and relatively small size of the Australian market. Whilst competition remains fierce industry competitors look to untapped and niche markets in order to increase market share whilst differentiating product offerings to gain market share from competitors.

Set out below is a summary of the major companies operating in this telecommunication industry:

**Figure 7: Telecommunications – Market Concentration**




## 6.3. Software Development and Maintenance

Software development and maintenance primarily entails the provision of expertise in information technology. Industry participants develop and implement programming systems and business solutions including writing, modifying, testing and/or providing user support for software. Industry companies provide systems that integrate with computer hardware, software, cloud and telecommunications technologies. FSG engages in the provision of end-to-end service including software development and maintenance.

Industry growth has expanded rapidly in recent years as computer and information technology upgrades in the workplace become commonplace. Furthermore companies are increasingly seeking product enhancements and have been seen to outsource non-essential system operations. Increased online connectivity has further spurred growth over the last five years through to 2016-17 with industry revenue expected to grow at an annualised 3.0% to $47.1 billion according to IBIS World data. Improvements in technology, increased software investment and greater prevalence of cloud computing and mobile platforms have driven revenue growth.

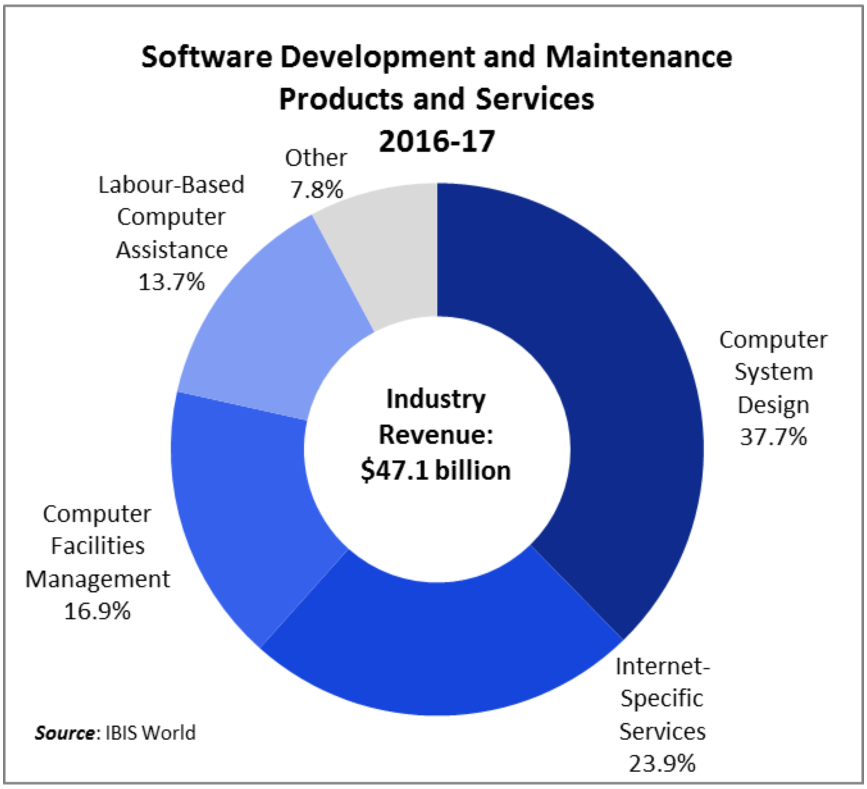
Industry revenue, according to an IBIS World report, is expected to continue its growth over the next five years, to reach $57.0 billion by 2021-22 an annualised rate of 3.9%. System upgrades linked to advancements in technology offerings is likely to drive growth. Furthermore investment in infrastructure such as the National Broadband Network and improvements in cloud computing will boost demand. Whilst high demand for services related to VOIP and internet based telephony will continue, increasingly this demand is likely to be satisfied by cloud systems in the business environment.

The key drivers of industry growth as previously discussed are capital expenditure on computer software, capital expenditure by the public sector, business confidence index, IT and telecommunications adoption and internet connections.

The industry provides a variety of services to improve clients' use of computer systems. These services are provided to a diverse range of downstream clients including financial service companies, government agencies, professional services companies, manufacturers, retailers and mining firms.

Set out below is a summary of the segmentation of products and services offered in this industry:

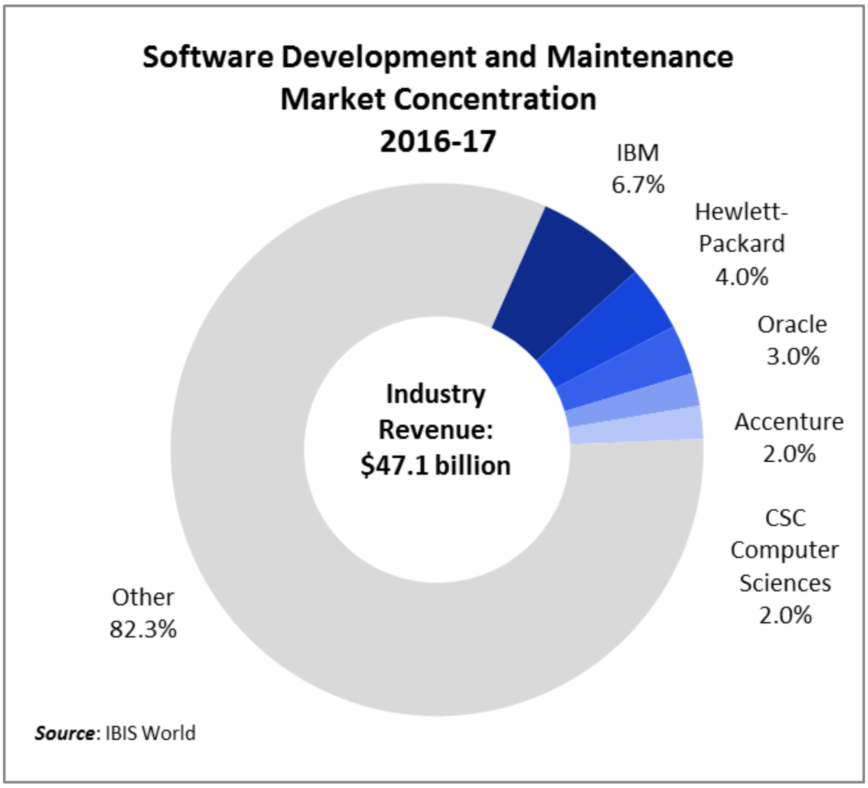
**Figure 8: Software Development and Maintenance – Product and Services Segmentation**




The industry exhibits a low level of market concentration and low barriers to entry with the four largest providers accounting for less than 15.0% of industry revenue in 2016-17 according to an IBIS World report. The low level of concentration owes itself to the large number of small specialist firms and numerous independent contractors. Over the next five years it is expected the industry will go through some form of industry consolidation as the bigger players seek economies of scale. In addition an increasing trend towards managed services which provide an end-to-end service for clients is expected to give rise to further merger and acquisitions within the industry. These services include hardware provision, software development, installation and oversight, a business model similar to which FSG operates.

Set out below is a summary of industry participants supporting the low levels of market concentration:

**Figure 9: Software Development and Maintenance – Market Concentration**




## 6.4. Cloud Based Services

Cloud based services have becoming increasingly adopted by businesses across Australia in light of the improved efficiencies the technology brings including increased operating flexibility, disaster recovery services and tighter security to name just of few of the benefits. According to Australia Bureau of Statistics ("**ABS**") one in five businesses use paid cloud computing services for the year ended 30 June 2014 a number which is likely to have increased significantly through to the date of this Report. Cloud based services encompasses a broad range of services although can be broken down into two primary industries in which FSG operates. These industries include data storage services and data processing and web hosting services. Details regarding these industries are discussed below in **Section 6.4.1** and **Section 6.4.2** respectively.

### 6.4.1. Data Storage Services

Data storage services relate to the provision of electronic information storage and retrieval services primarily through the use of cloud services enabling customers to upload, download, back up and access files and systems from servers managed by third parties, such as FSG.

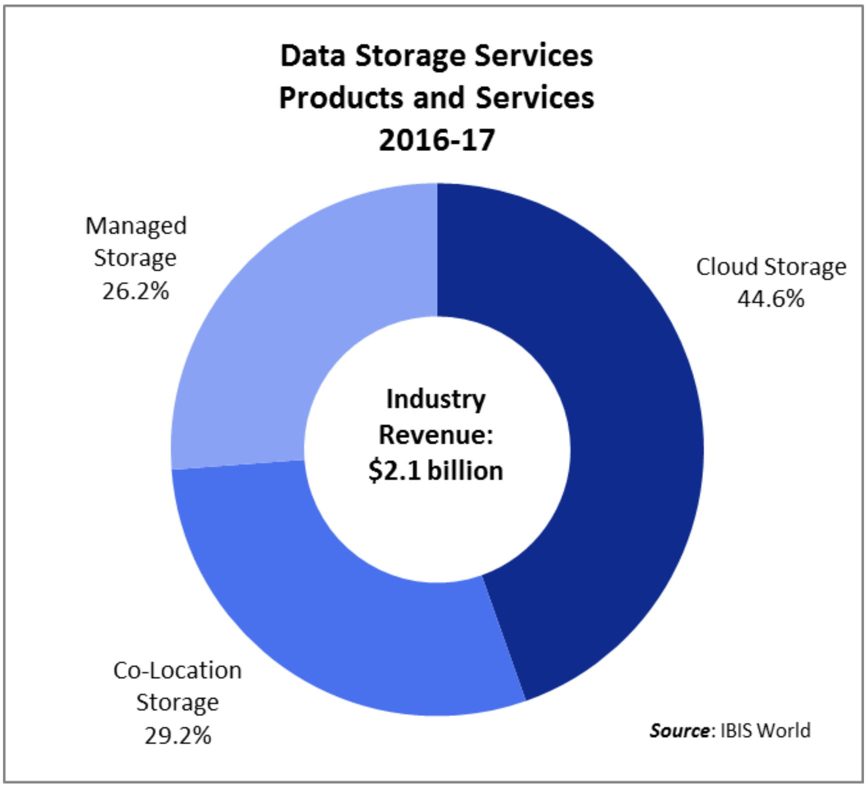
Industry growth has been strong in recent years as, increasingly, market participants seek cloud computing technology and outsourced data storage. Growth in internet traffic has also been a key determinant of industry growth. Cloud computing has reduced storage and computing costs for business whilst also providing easily scalable technology to match customer demand. According to an IBIS World report, for the five years through to 2016-17 industry revenue is expected to grow to a total of $2.1 billion, an annualised rate of 16.5% over the same period.

The outlook for industry growth remains positive with the increasing integration of cloud based service applications. Whilst many businesses still operate in-house data storage services their need for cloud based services will become apparent as the ability to accommodate larger server rooms will be limited by area, energy and cooling constraints. Cloud based computing offers an opportunity for companies to improve profit margins and attract more business from an increasingly environmentally conscious market of clients. Industry revenue is forecast to grow at an annualised rate of 10.6% over the five years through to 2021-22, to a total of $3.4 billion according to IBIS World data.

The industry includes a range of data storage services, although cloud based services remains the dominant contributor to industry revenue. The majority of industry revenue comes from financial, government and telecommunication clients, which are particularly concerned with their data's security.

Set out below is a summary of the products and services segmentation within the industry:

**Figure 10: Data Storage Services – Product and Services Segmentation**




The industry is characterised by low levels of market concentration and high barriers to entry given the capital expenditure, skilled labour and site selection required for new entrants. The four largest players are expected to account for less than 40.0% of industry revenue for 2016-17 according to an IBIS World report.

### 6.4.2. Data Processing and Web Hosting Services

Data processing and web hosting services entails the provision of specialised hosting activities such as web hosting, streaming services or application hosting, application service provisioning, or general timesharing mainframe facilities to customers.

Industry revenue is forecast to grow to $1.4 billion for the five years through to 2016-17 at an annualised rate of 5.4%. A primary driver on industry growth has been modern business adoption of outsourced business functions. As computers and smartphones have become increasingly popular data processing has grown in complexity. A growing number of businesses are seeking expert help as a result. Outsourcing has been positive for the industry although this has been somewhat offset by an increased prevalence of offshoring business operations.

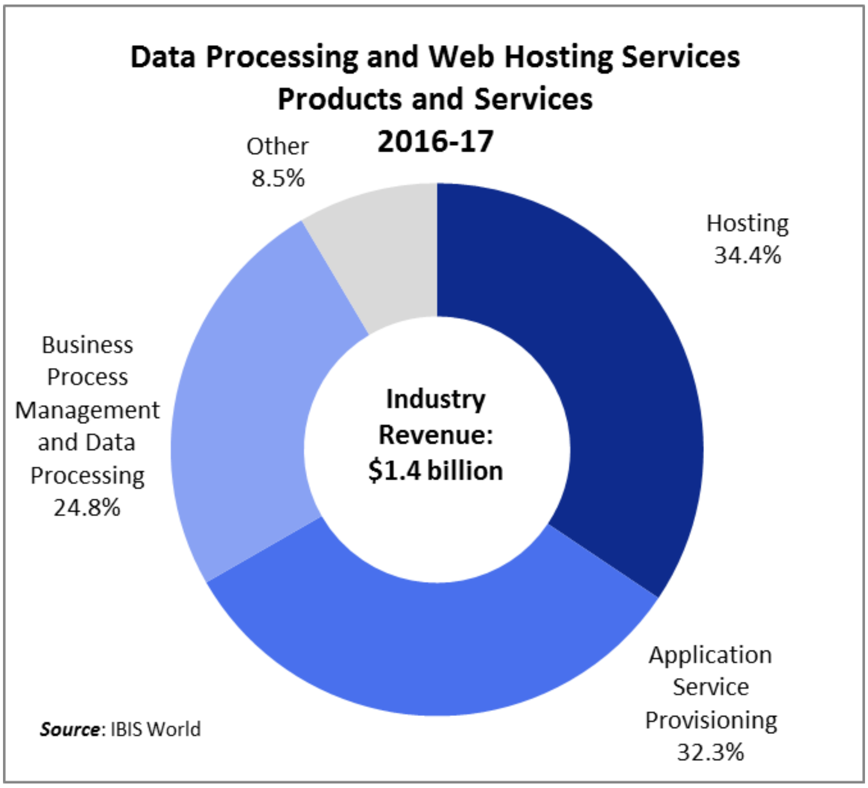
As more businesses and government entities migrate their online operations to the cloud and prospective clients realise the benefits of offered services the industry is projected to grow over the next five years. Web hosting is expected to remain highly competitive, especially in the market for small and medium businesses, a market in which FSG operates. Industry revenue is forecast to grow at a compound annual rate of 7.2% over the five years through 2021-21 to reach $2.0 billion.

Data processing involves capturing, digitising and processing data from various sources and has expanded in recent years in line with internet usage and data availability. The emergence of software-as-a-service models has enabled companies to have multiple users accessing software from the cloud, without physically having to install the software. This in turn has decreased the risk of losing data on the cloud and allows for automatic system wide updates.

Web hosting has also increased as more services migrate to the internet and hosting technology becomes easier to provide. Demand from corporate and government entities has driven much of hosting demand as companies increasingly move toward cloud based services.

Set out below is a summary of the product and services segmentation of the industry:

**Figure 11: Data Processing and Web Hosting Services – Product and Services Segmentation**




Industry market share is characterised by a low level of market concentration and faces a moderate whilst increasing level of competition. Currently, the largest four players of the industry account for just under 40.0% of industry revenue, according to an IBIS World report. Larger industry players have increasingly squeezed smaller players as they struggle to distinguish themselves. Smaller industry players need to remain agile and focus on key niche markets in order to remain competitive against significantly larger organisations which can benefit from economies of scale.

## 7. Valuation of Freshtel Holdings Ltd (Pre-Acquisition)

### 7.1. Selection of Valuation Methodology

In selecting an appropriate methodology to estimate the fair market value of the equity interests in Freshtel, we have considered common market practice and the widely accepted valuation methodologies which are summarised in **Appendix 3**.

Our estimate of the fair market value of Shares in Freshtel (pre-Acquisition) has been assessed using the net asset backing method.

We are of the view that the net asset backing method is the most appropriate to apply in the case of Freshtel (pre-Acquisition) for the following reasons:

- Freshtel has no material operations and as such, a valuation based on historical or forecast earnings (including a capitalisation of earnings or discounted cash flow method) is not appropriate;
- while Freshtel's Shares are listed on the ASX, they have been suspended since early-October 2016 and prior to being suspended; where illiquid in any case; and
- Freshtel's net assets comprise mostly of cash which can be readily valued.

### 7.2. Net Assets of Freshtel

Set out below is the unaudited balance sheet of Freshtel as at 30 November 2016 as set out in **Section 4.6** of this Report:

**Table 15: Balance Sheet of Freshtel as at 30 November 2016**

| | As at 30 Nov 2016 (Management Accounts) |
|---|---|
| **Current Assets** | |
| Cash and Cash Equivalents | 460,765 |
| Prepayments | 9,205 |
| **Total Current Assets** | **469,970** |
| **Total Assets** | **469,970** |
| **Current Liabilities** | |
| Trade and Other Payables | 30,108 |
| **Total Current Liabilities** | **30,108** |
| **Total Liabilities** | **30,108** |
| **NET ASSETS** | **439,862** |
| **Equity** | |
| Issued Capital | 39,977,288 |
| Retained Earnings | (39,537,426) |
| **TOTAL EQUITY** | **439,862** |

***Source*** : Freshtel Holdings Limited management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

In relation to the above, given that the only material asset and liability held by Freshtel as at 30 November 2016 consisted of cash, we have not made and adjustments to the net assets presented above for the purpose of assessing the fair market value of Freshtel.

## 7.3. Fair Market Value of a Freshtel Share a Control Basis

Based on the above, we have assessed the fair market value of a Freshtel Share (control basis, pre-Transactions but post-Consolidation) to fall within the range of $0.0070 to $0.0099, calculated as follows:

**Table 16: Fair Market Value of a Freshtel Share (Control Basis, Pre-Transactions but Post-Consolidations)**

| | Note / Report Reference | As at 30 Nov 2016 | | |
|---|---|---|---|---|
| | | Low | Mid-Point | High |
| Net Assets | 7.2 | $439,862 | $439,862 | $439,862 |
| Less: Corporate Costs | Note 1 | ($200,000) | ($150,000) | ($100,000) |
| **Fair Market Value of Freshtel** | | **$239,862** | **$289,862** | **$339,862** |
| Number of Shares on Issue (Post-Consolidation) | Note 2 | 34,460,754 | 34,460,754 | 34,460,754 |
| **Fair Market Value Per Share (Pre-Consolidation)** | | **$0.0070** | **$0.0084** | **$0.0099** |

***Source*** : Freshtel Holdings Limited management accounts for the five (5) months ended 30 November 2016; PKFCF Analysis

### *Note 1: Allowance for Corporate Costs*

In assessing the fair market value of Freshtel, we have considered the fair value of Freshtel on a standalone basis. Freshtel has no material business, but does have a number of corporate obligations as a listed entity.

Based on the above, we have assumed an allowance for such costs in the amount of $100,000 to $200,000. We have applied a one times multiple to these costs on the basis that it would not be likely that Freshtel would incur such costs on a medium to long term basis.

### *Note 2: Number of Shares on Issue*

As set out in **Section 4.3**, Freshtel currently has 1,723,037,677 shares on issue. Upon completion of the Consolidation, the number of shares on issue (prior to the Acquisition and Capital Raising) will be 34,460,754.

We have considered the options on issue, which we note have an exercise price of $0.0025 (pre-Consolidation) or $0.1250 (post-Consolidation) and therefore would be out of the money.

### *Note 3: Premium for Control*

No additional premium for control has been applied to the valuation given that the main asset is cash and that this is stated at a control value.

## 8. Valuation of Field Solutions Group Pty Ltd

### 8.1. Selection of Valuation Methodology

In selecting an appropriate methodology to estimate the fair market value of the equity interests in FSG, we have considered common market practice and the widely accepted valuation methodologies which are summarised in **Appendix 3**.

Our estimate of the fair market value of the issued shares of FSG has been assessed using the capitalisation of future maintainable earnings ("**CFME**") method.

We are of the view that the CFME method is the most appropriate to apply in the case of FSG for the following reasons:

- FSG has provided adequate financial information in order to determine appropriate historical and budgeted normalised earnings results;
- sufficiently detailed and supportable financial information beyond 30 June 2017 is not available to enable the application of the discounted cash flow ("**DCF**") valuation methodology as a primary valuation methodology;
- FSG is an unlisted private company whose shares are not traded on any public exchange nor has any transactions of FSG's shares taken place in recent history. Accordingly, a valuation based on the trading prices of FSG's shares is not possible; and
- the net assets of FSG at accounting values do not necessarily reflect the total value of the goodwill and other internally generated intangible assets inherent in the business. Accordingly, an asset based valuation is not appropriate.

Capitalisation multiples can be applied to a number of earnings estimates including future maintainable:

- operating cash flows;
- earnings before interest, tax, depreciation and amortisation ("**EBITDA**");
- earnings before interest, tax and amortisation ("**EBITA**");
- earnings before interest and tax ("**EBIT**"); or
- net profit before or after tax ("**NPBT**"/"**NPAT**").

The appropriate multiple to be applied to such earnings is usually derived from stock market trading of shares in (more or less) broadly comparable companies which provide some guidance as to value, and from precedent transactions involving (more or less) broadly comparable companies within the relevant industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospectus between the company being valued and those considered comparable.

When valuing controlling interests in a business, an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of maintainable earnings and the value of such surplus assets is separately added to the value of the business in order to derive the total value of the company.

In the absence of adequate comparable company information, a "build up" model may be used to determine an appropriate capitalisation rate. A capitalisation rate derived from a "build up" model is a product of a risk free rate, which is then adjusted for all the identified risks applicable to the company.

Our valuation has not been prepared on the existence of a special purchaser who may be prepared to pay in excess of the fair market value. Any such premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the business that would not be available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstance of special purchasers.

## 8.2. Selection of Future Maintainable Earnings

### 8.2.1. Introduction

Future maintainable earnings ("**FME**") is the assessed level of sustainable earnings, in real terms, that can be expected to be derived by the existing operations of a business regardless of short term fluctuations and excludes any one off profits or losses.

In our opinion, the appropriate earnings to adopt in valuing most businesses and companies is EBITDA as it most accurately reflects the return generated by a business and ignores factors that may not be relevant to the earning capacity of a business such as:

- interest costs, which reflect the method of financing the business and which vary between businesses, and interest revenue, that reflects earnings on surplus assets;
- effective tax rates, that reflect both the tax regimes in different countries and different tax positions of, and the tax planning measures implemented by businesses;
- historical costs of fixed assets at the time of their acquisition and different accounting policies, that will affect annual depreciation charges; and
- amortisation charges in respect of intangible assets that discriminate against companies that have accomplished business growth by acquisition of other companies as opposed to those that have organically grown their businesses.

Our estimate of FME for FSG has been determined after consideration of the following:

- FSG's normalised historical earnings, in particular for the years ended 30 June 2014, 2015 and 2016 and the five (5) months to 30 November 2016;
- FSG's normalised budgeted earnings for the seven (7) months to 30 June 2017; and
- growth prospects and the effect of changes and trends in the industry that may impact FSG.

We note that the budget for the seven (7) months to 30 June 2017 is predominately based on FSG's directors' representations and as outlined in **Section 2.2.6**. We have applied certain review procedures which is not an audit for the purposes of forming our opinion.

### 8.2.2. Calculation of Normalised EBITDA Results

The following table summarises the EBITDA and normalisation adjustments that have been identified for FSG for the years ended/ending 30 June 2014 to 2017 (incorporating actual results for the five (5) months to 30 November 2016):

**Table 17: Normalised Earnings of FSG**

| | Note / Report Reference | Year Ended 30 June | | | 5 Months to 30 Nov 2016 (Management Accounts) | Year Ending 30 June 2017 (Budget) |
|---|---|---|---|---|---|---|
| | | 2014 (Audited) | 2015 (Audited) | 2016 (Audited) | | |
| Net Profit After Tax | 5.6 | 118,637 | (124,707) | 1,063,248 | 475,490 | 1,492,696 |
| ***EBITDA Adjustments:*** | | | | | | |
| Add: Income Tax Expense | Note 1 | (42,384) | (149,082) | 236,975 | - | - |
| Add: Depreciation & Amortisation | Note 1 | 20,757 | 16,834 | 123,456 | - | - |
| Add: Finance Costs | Note 1 | - | - | 6,232 | - | - |
| Less: Interest Income | Note 1 | - | - | - | - | - |
| **EBITDA** | | **97,010** | **(256,955)** | **1,429,911** | **475,490** | **1,492,696** |
| ***Normalisation Adjustments:*** | | | | | | |
| Add: Management Fees | Note 2 | 135,000 | 245,000 | 296,425 | 149,373 | 324,373 |
| Less: Market Rate Directors' Remuneration (Andrew Roberts) | Note 2 | (295,000) | (295,000) | (295,000) | (122,917) | (295,000) |
| Add: One-Off Relocation Expenses | Note 3 | - | - | - | - | - |
| Add: One-Off New Office Expenses | Note 4 | - | - | - | - | - |
| **NORMALISED EBITDA** | | **(62,990)** | **(306,955)** | **1,431,336** | **501,946** | **1,522,069** |

***Source*** : FSG audited special purpose financial statements for the years ended 30 June 2014, 2015 and 2016; FSG management accounts for the five (5) months ended 30 November 2016; FSG budget for the year ending 30 June 2017; PKFCF Analysis

***Note 1:*** These adjustments have been taken up in order to reach an EBITDA position for FSG.

***Note 2:*** These adjustments have been take up in order to reverse the impact of management fees paid to entities related to the existing directors of FSG, and to take up the base remuneration to be paid to Mr Andrew Roberts subsequent to completion of the Acquisition, as set out in section 6.4 of the Explanatory Statement.

***Note 3:*** In September 2015, FSG relocated to a new premises. We have been advised by management of FSG that relocation costs were minimal and immaterial. Accordingly, we have not taken up any normalisation adjustments in this regard.

***Note 4:*** We have been advised by management of FSG that sometime during the months of March 2017 to June 2017, FSG expects to establish a small regional office. We have been advised that management of FSG expect that there will be little or no capital expenditure required to establish this new office, and that all costs associated with the operation of this new regional office, have been included in the budget for the year ending 30 June 2017.

### 8.2.3. Selection of FME

Based on the above analysis and the analysis set out in **Sections 5.6** and **8.2.2** of this Report, we have selected a FME of $1.50 million, being the normalised forecast EBITDA for FY2017 (rounded).

## 8.3. Selection of Capitalisation Multiple

### 8.3.1. Introduction

The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors that may include, but not be limited to the following:

- the stability and quality of earnings;
- the quality and the likely continuity of the business' management;
- the nature and size of the business;
- the spread and financial standing of customers;
- the financial structure of the company and gearing level;
- the future prospects of the business, including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- the nature of the industry, such as whether it is cyclical;
- current and any expected changes in interest rates;
- the asset-backing of the underlying business of the company and the quality of the assets;
- the multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors;
- the multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors; and
- whether a premium of control is appropriate, and if so, the extent of the same.

The appropriate earnings multiple is usually assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are broadly comparable to those of the entity being valued. Such multiples are derived from:

- share market prices of broadly comparable listed companies (usually reflecting a non-controlling interest status);
- prices achieved in mergers and acquisitions of broadly comparable companies (usually reflecting a controlling interest status); and
- initial public offering ("**IPO**") prices of shares in broadly comparable companies (where available) (usually reflecting a non-controlling interest status).

In selecting appropriate comparable companies, we have firstly had regard to listed Australian companies that have similar operations to FSG. Our review is set out below.

### 8.3.2. Comparable Listed Companies

**Appendix 4** provides details of the identified broadly comparable listed companies, as well as stock market trading parameters for those companies.

The capitalisation rate should reflect the growth prospects of the business, the quality of its earnings and the risks of the business. In order to ascertain the appropriate multiple range to apply to FSG, we have undertaken a high level review of the characteristics of the companies that we consider most comparable and compared these with FSG and based on this review, derived a capitalisation multiple which would be applicable to FSG.

Set out below is a summary of the selected comparable listed companies and relevant financial data. Items highlighted have been classified as outliers:

**Table 18: Summary of Identified Comparable Listed Companies**

| | Market Data | | Revenue | | EBITDA & EBITDA Multiples | | | |
|---|---|---|---|---|---|---|---|---|
| Company name | Market Cap AUDm | Enterprise Value AUDm | Revenue LTM AUDm | Revenue NTM AUDm | EBITDA LTM AUDm | EBITDA NTM AUDm | EBITDA multiple LTM | EBITDA multiple NTM |
| Telecommunications and Cloud-Based Solutions | | | | | | | | |
| Over the Wire Holdings Limited | 103 | 96 | 24.0 | 29.1 | 5.4 | 7.0 | 17.9 | 13.7 |
| Inabox Group Limited | 25 | 33 | 82.5 | n/a | 4.1 | n/a | 8.0 | n/a |
| Telecommunications Only | | | | | | | | |
| Vocus Communications Limited | 2,564 | 3,330 | 832.5 | 1,850.0 | 206.8 | 438.2 | 16.1 | 7.6 |
| SpeedCast International Limited | 738 | 867 | 206.4 | 377.0 | 35.0 | 81.8 | 24.8 | 10.6 |
| TPG Telecom Limited | 6,058 | 7,401 | 2,387.4 | 2,552.1 | 770.9 | 831.6 | 9.6 | 8.9 |
| Telstra Corporation Limited | 60,119 | 74,544 | 26,622.9 | 28,670.8 | 9,681.0 | 10,803.5 | 7.7 | 6.9 |
| Spark New Zealand Limited | 6,385 | 7,173 | 3,415.7 | 3,415.7 | 797.0 | 969.3 | 9.0 | 7.4 |
| Hutchison Telecommunications (Australia) Limited | 1,059 | 1,268 | 7.2 | n/a | n/a | n/a | n/a | n/a |
| Chorus Limited | 1,537 | 3,390 | 968.6 | 997.1 | 737.0 | 605.4 | 4.6 | 5.6 |
| MNF Group Limited | 314 | 276 | 162.4 | 197.1 | 16.4 | 20.8 | 16.8 | 13.3 |
| Spirit Telecom Limited | 24 | 24 | 8.9 | n/a | 0.0 | n/a | 1880.4 | n/a |
| Macquarie Telecom Group Limited | 231 | 194 | 194.0 | n/a | 24.9 | n/a | 7.8 | n/a |
| Cloud-Based Solutions | | | | | | | | |
| 9 Spokes International Limited | 60 | 42 | 0.2 | n/a | n/a | n/a | n/a | n/a |
| Bulletproof Group Limited | 40 | 38 | 47.5 | n/a | 3.5 | n/a | 10.8 | n/a |
| NEXTDC Limited | 898 | 872 | 89.0 | 117.8 | 27.8 | 48.2 | 31.4 | 18.1 |
| Cirrus Networks Holdings Limited | 14 | 14 | n/a | n/a | n/a | n/a | n/a | n/a |
| Data#3 Limited | 253 | 152 | 760.0 | 1,520.0 | 19.7 | 25.8 | 7.7 | 5.9 |
| JCurve Solutions Limited | 5 | 3 | 10.0 | n/a | 0.0 | n/a | 5214.3 | n/a |
| **Mean** | | | **26.2** | **2.7** | | | **484.5** | **9.8** |
| **Median** | | | **2.8** | **2.5** | | | **10.8** | **8.3** |
| **Mean (excl. outliers)** | | | **1.7** | **1.8** | | | **13.4** | **10.9** |
| **Median (excl. outliers)** | | | **1.0** | **1.9** | | | **10.8** | **12.0** |

*Source: S&P Capital IQ (downloaded on 15 January 2017, data as at 30 November 2016), PKFCF Analysis*

***Notes:***

*1) LTM = Last Twelve Months, NTM = Next Twelve Months, FY = Latest fully-reported Financial Year, CAGR = Compound Annual Growth Rate, AVG = Average*

*2) Outliers have been shaded and excluded from the calculation of mean and median (where specified)*

Based on the above, we have selected a starting EBITDA multiple (i.e. before taking into account appropriate adjustments as discussed in the following section) for FSG of 10.9x.

We have applied the following adjustments to the starting multiple:

**Table 19: Discount/Premium to Multiple**

| Factor | Explanation | Discount/ Premium |
|---|---|---|
| Size of the Business | We note that the revenues and enterprise values of most of the selected Australian comparable listed companies (with FY2016 EBITDA multiples not being outliers) are larger than FSG.<br><br>Larger companies are generally valued at higher earnings multiples which reflect the benefits of size, particularly in relation to market power, control over prices and costs, depth of management, diversity of customers and general operational and financial robustness. In addition, larger listed companies may trade at higher earnings multiples because of the liquidity of their shares and the likelihood of greater interest in the shares from a wider base of investors (e.g. institutions or foreign investors).<br><br>On the basis that FSG is smaller than the selected comparable listed companies, we have taken up a size risk adjustment in the case of FSG. | Discount |
| Marketability | A discount for marketability is generally applied to private companies as minority parcels of shares in unlisted companies are valued at a discount to minority parcels of shares in comparable listed companies.<br><br>An unlisted share of a closely-held company in which trading is infrequent (and which therefor lacks negotiability) is less attractive that a similar stock which has ready negotiability of shares and therefor liquidity. However, there is an argument that controlling interest investments, regardless of whether they are listed or unlisted, are generally marketable and do not necessarily attract a marketable discount.<br><br>Nevertheless, we have assessed the requirement for a marketability discount as FSG is an unlisted business.<br><br>In considering the size of any minority discount to apply in the case of FSG, we have considered the nature and size of the FSG business and its overall attractiveness in the market place. | Discount |
| Growth Opportunities | A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth.<br><br>We note that from a revenue perspective, FSG grew strongly in FY2016 with growth expected be modest in FY2017. We note that this growth is below that expected for the identified comparable companies.<br><br>Overall, we are of the view that the growth opportunities are less than that of the comparable companies and for this reason, we have applied a discount. | Discount |

| Factor | Explanation | Discount/ Premium |
|---|---|---|
| Diversity | A company which has a greater diversity in its operations and in the products and services it offers will tend to have a higher earnings multiple for a given level of earnings which reflects the lower operational and revenue risk of having more than a single product or service offering. However, we note that whilst FSG engages in a variety of operations, the majority of the selected comparable listed companies have operations that are more diverse than those of FSG (both from a products and services perspective, and also a geographic perspective).<br><br>Accordingly, we have taken up a diversity discount in the case of FSG. | Discount |
| Customer risk | As noted in **Section 5.6**, one client represented approximately 50% of total revenues for the five months to 30 November 2016. In FY2016, the same client represented approximately 28% of total revenue with the second largest client representing approximately 22% of total revenue in FY2016.<br><br>Businesses which have a high reliance on a small number of clients tend to attract a discount compared to similar businesses with a more diversified client base.<br><br>For this reason, we have applied a discount to account for additional customer risk in the case of FSG. | Discount |
| Maintainability of Earnings Risk | As noted in **Section 5.6**, FSG has experienced strong growth in a relatively short period of time. Accordingly, it is comparatively more difficult (when compared to the comparable listed companies identified) to rely on historical financial performance as a gauge of future expected financial performance.<br><br>In addition, in relation to the year ending 30 June 2017, we note that 2/3$^{rds}$ of EBITDA is expected to be generated in the last 7 months of the year (i.e. December 2016 to June 2017). However, we note that revenue for the five months ended 30 November 2016 is reflective of the proportion that this period contributed to the entire FY2017.<br><br>Finally, we note that a significant portion of revenue in FY2016 and FY2017 was/is expected to be generated from the provision of software development services. These types of services are generally not recurring in nature and are dependent on a FSG's ability to generate new work.<br><br>For the above reasons, we have applied a discount to account for the additional risk regarding maintainability of earnings. | Discount |
| Key Person Risk | Where there are only a small number of key personnel, key person risk is increased and may have a negative impact on the earnings multiple applied to a company.<br><br>As set out in **Section 5.4** of this Report, FSG has a limited number of key personnel managing the business of FSG. In addition, we note that to date, FSG's recent sales growth success has largely been driven by the sales acumen of FSG's directors.<br><br>We are of the view that there is a key person risk attributable to FSG. Accordingly, we have taken up a discount for key person risk in the case of FSG. | Discount |

| Factor | Explanation | Discount/ Premium |
|---|---|---|
| Control Premium | The trading multiples of the comparable listed companies represent trades in minority parcels of shares in those listed companies and not a controlling interest.<br>As the interest in FSG that we are valuing represents a controlling interest, we have taken up an appropriate control premium in the case of FSG. | Premium |

***Source***: PKFCF analysis

### 8.3.3. Merger & Acquisition Multiples

We have reviewed a number of transactions relating to businesses within the media, advertising and public relations industries. A summary of the results of our review is set out in **Appendix 6**. In relation to the transactions identified, we note the following:

- all of the identifying transactions were for controlling interests in the targets;
- the implied enterprise values of the targets ranged between $1.2 million and $2,768 million, averaging $419 million; and
- the implied EV/EBITDA multiples for the targets ranged between approximately 2.5x to 16.7x, averaging approximately 10.9x. We note this exclude any outliers as detailed in **Appendix 6**;
- Inabox Group Limited, which had an enterprise multiple of $4.5 million (i.e. similar size to FSG), was acquired at an EBITDA multiple of 3.8x and a revenue multiple of 1.2x;
- Intelligent IP Communications Pt Ltd, which had an enterprise value of $9.9 million (i.e. slightly larger than FSG), was acquired at an EBITDA multiple of 15.3x and a revenue multiple of 2.3x;
- Telarus Pty Ltd, which had an enterprise value of $7.6 million (i.e. similar in size to FSG), was acquired at an EBITDA multiple of 5.0x;
- Infoplex Pty Ltd, which had an enterprise value of $3.6 million (i.e. slightly smaller than FSG), was acquired at an EBITDA multiple of 2.5x and a revenue multiple of 0.6x;

Based on the above, and having particular regard to transactions for companies that were of similar in size to FSG, it is our opinion that the comparable merger and acquisition multiples indicate multiples appropriate in the case of FSG to fall within the following ranges:

- 3.0x to 5.0x EBITDA; and
- 1.0x to 2.0x revenue.

### 8.3.4. Initial Public Offering Multiples

We have also considered recent IPO activity. Whilst we have identified a number of recent IPO's of comparable companies, each of these companies has been included in our analysis in **Section 8.3.2** above which we consider more relevant.

Accordingly, we have not any additional analysis of recent IPO activity.

### 8.3.5. Multiple Applicable to Field Solutions Group Pty Ltd

Based on our analysis above, we have arrived at a controlling interest basis EBITDA multiple range applicable to FSG's EBITDA FME of 4.0 times to 4.5 times with a mid-point of 4.25 times.

## 8.4. Surplus Assets & Liabilities

Surplus assets and liabilities are those assets and liabilities which form part of an entity but do not contribute to the business earnings or cash flow general capacity of that entity. These are assets and liabilities that if sold, would not impact on the revenue or profit generating capacity of the active business.

Assets and liabilities that do not form part of the business undertaking must be valued separately. Such assets and liabilities are considered to be 'surplus' to the business undertaking, but nevertheless should be reflected in the overall value of the entity as they could be sold separately and the cash added to the value of the business.

In determining the value of surplus assets and liabilities in the case of FSG, we have taken into consideration the following items:

### 8.4.1. Cash & Working Capital

As at 30 November 2016, total cash held by FSG amounted to $185,259. In the first instance, this entire amount has been treated as a surplus asset.

We have also considered the level of cash that a potential buyer would require if they were to acquire 100% of FSG to support the ongoing stable business operations of the company. In determining an appropriate level of required retained cash, we have considered:

- the cash cycle of the business (on a normalised basis);
- the nature of expenditure including the frequency of payment; and
- trade debtor and creditor balances as at 30 November 2016 and historical trends where data has been available.

Based on the above, we have subsequently adopted 1 months' normalised expenses budgeted for the year ending 30 June 2017 (including income tax) as a reasonable cash requirement, amounting to $360,000. This amount has been reduced from the surplus cash asset in the amount of $185,259.

### 8.4.2. Loans Receivable from Relates Parties

As at 30 November 2016, there were loans receivable from entities related to the directors of FSG totalling $174,860. We have been advised by FSG's directors that these loans will be fully repaid to FSG prior to or around the time of completion of the Acquisition.

Accordingly, we have taken up these related loans receivable as a surplus asset.

### 8.4.3. Short Term Capital Expenditure ("CAPEX") Requirements

We have made enquiries with management of FSG regarding the short-term CAPEX requirements of FSG and have been advised that:

- FSG is not expected to incur any material CAPEX in the short term, including in relation to the establishment of a new rural premises in late FY2017; and
- no additional CAPEX is required to maintain the earnings as set out in the budget for FY2017.

### 8.4.4. Other Potential and/or Contingent Liabilities

We have made enquires with the directors of FSG regarding the existence of any other potential and/or contingent liabilities. No other potential and/or contingent liabilities were brought to our attention.

## 8.5. Valuation Calculation

In our opinion, the fair market value of all of the issued shares of FSG as at 30 November 2016 falls within the range of $6.00 million to $6.75 million, with a mid-point of $6.38 million, calculated as follows:

**Table 20: Fair Market Value of FSG as at 30 November 2016**

| | Note / Report Reference | Low | Mid-Point | High |
|---|---|---|---|---|
| Selected Future Maintainable Earnings | 8.2.3 | 1,500,000 | 1,500,000 | 1,500,000 |
| Selected EV/EBITDA Multiple (Control Multiple) | 8.3.5 | 4.00 | 4.25 | 4.50 |
| **Enterprise Value** | | **6,000,000** | **6,375,000** | **6,750,000** |
| **Add: Surplus Assets as at 30 November 2016** | | | | |
| Cash & Cash Equivalents | 8.4.1 | 185,259 | 185,259 | 185,259 |
| Working Capital Adjustment | 8.4.1 | (360,000) | (360,000) | (360,000) |
| Loans Receivable from Related Parties | 8.4.2 | 174,860 | 174,860 | 174,860 |
| **Subtract: Surplus Liabilities as at 30 November 2016** | | | | |
| Short-Term CAPEX Requirements | 8.4.3 | - | - | - |
| Other Surplus Liabilities | 8.4.4 | - | - | - |
| **Equity Value (Control Basis)** | | **6,000,119** | **6,375,119** | **6,750,119** |

***Source*** : FSG management accounts for the five (5) months ended 30 November 2016; FSG budget for the year ending 30 June 2017; PKFCF Analysis

## 8.6. Valuation Cross Check

As detailed above, we have utilised the CFME valuation methodology as our primary valuation methodology. As a cross check, we have reviewed the implied revenue multiples based on our assessment of the enterprise value of FSG, against comparable companies identified in **Appendix 4** and **Appendix 6**.

Set out below is our analysis;

**Table 21: Implied Revenue Multiples**

| | Note / Report Reference | Low | Mid-Point | High |
|---|---|---|---|---|
| Enterprise Value | 8.5 | 6,000,000 | 6,375,000 | 6,750,000 |
| Revenue (FY2016 - Audited) | 5.6 | 5,053,463 | 5,053,463 | 5,053,463 |
| **Implied Historical Revenue Multiple** | | **1.19** | **1.26** | **1.34** |
| Enterprise Value | 8.5 | 6,000,000 | 6,375,000 | 6,750,000 |
| Revenue (FY2017 - Budgeted) | 5.6 | 5,532,823 | 5,532,823 | 5,532,823 |
| **Implied Budgeted Revenue Multiple** | | **1.08** | **1.15** | **1.22** |

***Source*** : FSG audited special purpose financial statements for the year ended 30 June 2016; FSG management accounts for the five (5) months ended 30 November 2016; FSG budget for the year ending 30 June 2017; PKFCF Analysis

We are of the view that the implied revenue multiples indicated above are reasonable when compared to the revenue multiples observed for the comparable listed companies identified in **Appendix 4** and **Appendix 6**, after taking into account the discounts and premiums as discussed in **Section 8.3.2** of this Report.

## 9. Valuation of Freshtel Holdings Ltd (Post-Transactions)

### 9.1. Approach

In estimating of the fair market value of Shares in Freshtel (post-Transactions), we have taken the following approach:

- firstly, we have aggregated the following components:
  - the NTA of Freshtel on a pre-Transactions basis (refer to **Section 7.2** above); and
  - the fair market value of FSG (refer to **Section 8.5** above);
- we have then deducted estimated costs associated with the Acquisition;
- we have then taken up the impact of the Consolidation, the Capital Raising and the issue of the Facilitator Shares and the Director Shares; and
- finally, we have then deducted an allowance for capitalised corporate costs (refer to Note 3 of **Section 9.2** below) which recognises the ongoing costs that Freshtel will incur as a listed entity post-Transactions.

### 9.2. Fair Market Value of a Freshtel Share on a Minority Basis

Based on the above, we have assessed the fair market value of each Freshtel Share (post-Transactions) on a minority basis to fall within the range of $0.0179 to $0.0206 (assuming a $3 million Capital Raising) or between $0.0182 to $0.0207 (assuming a $4 million Capital Raising).

The following table sets out our calculation of the fair market value of a Freshtel Share on a minority basis:

**Table 22: Fair Market Value of Each Freshtel Share (Minority Basis, Post-Acquisition and Post-Consolidation)**

| | Note / Report Reference | $3 Million Capital Raising | | | $4 Million Capital Raising | | |
|---|---|---|---|---|---|---|---|
| | | Low | Mid-Point | High | Low | Mid-Point | High |
| Net Assets of Freshtel as at 30 November 2016 | 7.2 | $439,862 | $439,862 | $439,862 | $439,862 | $439,862 | $439,862 |
| Add :Fair Market Value of FSG | 8.5 | $6,000,119 | $6,375,119 | $6,750,119 | $6,000,119 | $6,375,119 | $6,750,119 |
| Less: Estimated Costs of the Acquisition | Note 1 | ($100,000) | ($100,000) | ($100,000) | ($100,000) | ($100,000) | ($100,000) |
| Add: Gross Proceeds from Capital Raising | 1.1 | $3,000,000 | $3,000,000 | $3,000,000 | $4,000,000 | $4,000,000 | $4,000,000 |
| Less: Estimated Costs of Capital Raising | Note 2 | ($465,000) | ($465,000) | ($465,000) | ($525,000) | ($525,000) | ($525,000) |
| Less: Capitalised Corporate Costs | Note 3 | ($1,016,000) | ($1,079,500) | ($1,143,000) | ($1,016,000) | ($1,079,500) | ($1,143,000) |
| **Fair Market Value of Freshtel (Post Acquisition)** | | **$7,858,981** | **$8,170,481** | **$8,481,981** | **$8,798,981** | **$9,110,481** | **$9,421,981** |
| Number of Shares on Issue (Post Acquisition) | 1.2 | 330,175,040 | 330,175,040 | 330,175,040 | 363,508,373 | 363,508,373 | 363,508,373 |
| **Fair Market Value Per Share (Control Value)** | | **$0.0238** | **$0.0247** | **$0.0257** | **$0.0242** | **$0.0251** | **$0.0259** |
| Less: Minority Discount | Note 4 | -25.0% | -22.5% | -20.0% | -25.0% | -22.5% | -20.0% |
| **Fair Market Value Per Share (Minority Value)** | | **$0.0179** | **$0.0192** | **$0.0206** | **$0.0182** | **$0.0194** | **$0.0207** |

***Source*** : PKFCF Analysis

#### *Note 1: Estimated Costs of the Acquisition*

As advised by management of Freshtel, these costs (totaling $100,000) include due diligence and legal costs directly associated with the Acquisition.

#### *Note 2: Estimated Costs of the Capital Raising*

As advised by management of Freshtel, these costs (totaling $465,000 in the case of a $3 million Capital Raising, or $525,000 in the case of a $4 million Capital Raising) include brokerage and underwriting fees, legal fees, Independent Expert and Investigating Accountant's, ASIC and ASX fees and other miscellaneous costs.

*Note 3: Allowance for Capitalised Corporate Costs*

In assessing the fair market value of Freshtel (post-Transactions), we have considered the ongoing corporate overhead costs that Freshtel will incur (post-Transactions). These costs are in addition to the overhead costs of FSG and include items such as:

- non-executive directors' fees;
- annual ASX listing fees;
- annual audit fees;
- directors' and officers' insurance; and
- other general administration costs such as annual report printing, AGM costs and travel expenses.

We have been advised by the Directors of Freshtel that these costs are expected to amount to approximately $254,000 per annum. In determining the fair market value of Freshtel (post-Transactions), we have capitalised these ongoing corporate overhead costs by applying a 4.0x to 4.5 multiple (i.e. the same multiple applied to FSG in **Section 8.3.5**) to the estimated annual expenditures.

*Note 4: Minority Discount*

In order to determine the fair market value of Freshtel (post-Transactions) on a minority interest basis, we need to consider what minority discounts are appropriate to apply in the case of Freshtel (post-Transactions).

The application of a minority discount reflects the fact that a holder of a minority parcel of securities in an entity will not be able to (on his own) control the entity, including in relation to operational and financial matters.

The level of the discount will depend on the circumstance. In the case of Freshtel (post-Transactions), we have considered the following factors in determining an appropriate minority discount to apply:

- upon completion of the Transactions, the Vendors will hold a voting interest in Freshtel of between 51.1% and 56.2%. Voting interests of this level will provide the Vendors with control of Freshtel; and
- market discounts generally to listed public companies.

Based on the above, in our opinion, we have determined an appropriate minority discount in the range of 20% to 25% to apply in the case of Freshtel, post-Transactions.

## 10. Assessment of the Proposed Acquisition

### 10.1. Approach

#### *Assessment of Fairness*

In our opinion, the Acquisition will be “fair” if:

- the current fair market value of a Freshtel Share on a control basis (post-Consolidation) as at 30 November 2016 (“**Valuation Date**”);

is less than,

- the estimate fair market value of a Freshtel Share on a minority basis (post-Consolidation) assuming completion of the Transactions (including the Acquisition) had occurred at the Valuation Date.

#### *Assessment of Reasonableness*

Under RG 111, the Acquisition will be “reasonable” if it is “fair”. The Acquisition may also be “reasonable” if, despite being “not fair”, there are sufficient reasons for Non-Associated Shareholders to approve the Acquisition in the absence of any better opportunities at the time of voting.

This assessment has largely been undertaken by considering whether in our opinion, the advantages of approving the Acquisition sufficiently outweigh the disadvantages for Non-Associated Shareholders as a whole.

### 10.2. Fairness of the Acquisition

Based on the analysis set out above, the following table sets out our assessment as to whether or not the Acquisition is “fair” to Non-Associated Shareholders.

**Table 23: Fairness Assessment**

| | Note / Report Reference | $3 Million Capital Raising | | | $4 Million Capital Raising | | |
|---|---|---|---|---|---|---|---|
| | | Low | Mid-Point | High | Low | Mid-Point | High |
| ***What do Non-Associated Shareholders have now:*** | | | | | | | |
| Assessed Fair Market Value of Freshtel Per Share (Control Basis, Post-Consolidation) | (a) Section 7.3 | $0.0070 | $0.0084 | $0.0099 | $0.0070 | $0.0084 | $0.0099 |
| ***What will Non-Associated Shareholders get:*** | | | | | | | |
| Assessed Fair Market Value of Freshtel Per Share (Minority Basis, Post-Transactions) | (b) Section 9.2 | $0.0179 | $0.0192 | $0.0206 | $0.0182 | $0.0194 | $0.0207 |
| ***Fairness Assessment:*** | | | | | | | |
| Is the Acquisition Fair or Unfair? | | Fair | Fair | Fair | Fair | Fair | Fair |
| By how much? ($) | (b) - (a) = (c) | $0.0109 | $0.0108 | $0.0107 | $0.0112 | $0.0110 | $0.0109 |
| By how much? (%) | (c) / (a) | 156% | 128% | 108% | 161% | 131% | 110% |

***Source:*** PKFCF Analysis.

Based on the above, we have determined that the Acquisition is “**fair**” to the Non-Associated Shareholder.

It is noted that a key driver to the value of a Freshtel Share post-Transactions is the Capital Raising and the price of $0.003. Should this price materially reduce, this will affect our valuation conclusions.

## 10.3. Reasonableness of the Acquisition

As we have concluded that the Acquisition is "**fair**", in accordance with RG 111, it is also "**reasonable**". Nevertheless, we have considered the advantages and disadvantages of the Acquisition and these are set out below.

### 10.3.1. Advantages of the Acquisition

***Ability of Freshtel to Continue as an ASX Listed Company***

As at the date of this report, Freshtel does not carry on any material trading activities.

The ASX has the ability to remove from its register, companies that do not carry on a sufficient level of operations. While "sufficient" is not defined by the ASX, in our opinion, the level of activity currently undertaken by Freshtel is unlikely to meet this threshold and accordingly, in the absence of Freshtel undertaking a significant transaction, there is material uncertainty over Freshtel remaining listed on the ASX.

In May 2016, the ASX advised Freshtel's Directors that it had set a deadline of February 2017 for completion of a transaction that would result in Freshtel Having a sufficient level of operations.

The acquisition of FSG should enable Freshtel to remain listed on the ASX, enabling Freshtel's Shares to be traded in the public market, providing existing Shareholders with liquidity.

***Funding of Acquisition***

The consideration for the Acquisition is being funded entirely through the issue of new shares in Freshtel. That is, Freshtel will not be required to expend any cash for the Acquisition.

This type of structure has the benefit of not only preserving the Company's cash reserves, but it also aligns the interests of the Vendors of FSG with the interests of existing Shareholders of Freshtel.

***Increased Market Capitalisation of Freshtel***

As set out in **Section 1.1**, the Acquisition is conditional on a number of transactions occurring including the Capital Raising and the issue of the Facilitator Shares and the Director Shares.

On completion of the Acquisition and Transactions, Freshtel will have a market capitalisation ranging between $9.9 million and $10.9 million, based on the price at which Shares are to be issued under the Capital Raising (this assumes a share price of $0.03 per share).

An increase in the market capitalisation of Freshtel may deliver significant benefits to the Company and Shareholders, including:

- greater access to equity and debt markets; and
- increased liquidity of Freshtel's Shares;

***Growth Opportunities***

As set out in **Section 1.1**, the Acquisition is condition on the completion of the Capital Raising which will provide the Company with cash funds of between $3 million to $4 million (before costs).

As set out in section 1.13 of the Explanatory Statement to which this Report accompanies, the proceeds of the Capital Raising will be used to fund growth and expansion initiatives for FSG.

### 10.3.2. Disadvantages of the Acquisition

#### *Dilution of Existing Freshtel Shareholders*

Upon completion of the Acquisition and Transactions, the combined equity and voting interests of existing Freshtel Shareholders will be reduced from 100% to between 9.5% and 10.4% (depending on the level of the Capital Raising), as depicted in the following table:

**Table 24: Impact on Freshtel Shareholders**

| | Current | | $3 Million Capital Raising | | $4 Million Capital Raising | |
|---|---|---|---|---|---|---|
| | # | % | # | % | # | % |
| Existing Freshtel Shareholders (Post-Consolidation) | 34,460,754 | 100.0% | 34,460,754 | 10.4% | 34,460,754 | 9.5% |
| Shares Issued Pursuant to Capital Raising | - | 0.0% | 100,000,000 | 30.3% | 133,333,333 | 36.7% |
| Issue of Consideration Shares | - | 0.0% | 185,714,286 | 56.2% | 185,714,286 | 51.1% |
| Issue of Facilitator Shares | - | 0.0% | 4,000,000 | 1.2% | 4,000,000 | 1.1% |
| Issue of Director Shares | - | 0.0% | 6,000,000 | 1.8% | 6,000,000 | 1.7% |
| **TOTAL** | **34,460,754** | **100.0%** | **330,175,040** | **100.0%** | **363,508,373** | **100.0%** |

***Source:*** Notice of Meeting; PKFCF Analysis

#### *Controlling Shareholder*

Further to the above, the Vendors of FSG will become the major shareholder(s) in Freshtel, holding greater than 50% of the equity and voting interests in the Company.

A shareholding of this size will almost certainly provide the Vendors with the ability to determine the outcome of all ordinary resolutions and significantly influence the outcome of any special resolutions.

#### *Change in Nature of Operation*

The acquisition of FSG will result in a change in the nature of operations for the Company.

This change in nature may not be consistent with the investment objectives and risk profiles of existing Freshtel Shareholders.

## 10.4. Implications for Non-Associated Shareholders of Rejecting the Acquisition

In the case that the Acquisition (including the Transactions) are not approved by Freshtel Shareholders, Non-Associated Shareholders will be subject to the following:

- they will remain shareholders in a Company that has no material operations and minimal assets, while still being subject to the costs of maintaining the listed vehicle. If the Acquisition is not approved, and an alternative suitable transaction is not implemented in the near future, Non-Associated Shareholders face the prospect of the Company being wound-up with little or no return to existing Freshtel Shareholders; and
- due to having insufficient operations, Freshtel may be removed from the official list of the ASX, by the ASX, leaving Non-Associated Shareholders holding shares that cannot be traded in a public market.

## 10.5. Overall Conclusion

For the reasons state above, it is our opinion that the Acquisition is **"fair"** and **"reasonable"** to the Non-Associated Shareholders.

## 11. Qualifications, Independence and Disclaimer

### 11.1. Qualifications

PKFCF is the licensed corporate advisory arm of PKF. PKFCF provides advice in relation to all aspects of valuations and its personnel have extensive experience in the valuation of corporate entities.

**Mr Andrew Jones** B.EC, CA, is a Director of PKFCF. Mr Jones was actively involved in the preparation of this Report..

Mr Jones has over 25 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, due diligence reviews, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions.

**Mr Nick Navarra** B.Bus, CA is a Principal of PKFCF. Mr Navarra was actively involved in the preparation of this Report.

Mr Navarra has over 15 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, the preparation of independent expert's reports, due diligence reviews, litigation support activities, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions.

**Mr Vince Fayad** B.Bus, CA, is a Director of PKFCF. Mr Fayad has reviewed this Report.

Mr Fayad has over 30 years' experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, advising on independence expert reports, preparation of information memoranda and other corporate investigations.

Based on their experience, Messrs Jones, Navarra and Fayad are considered to have the appropriate experience and professional qualifications to provide the advice offered.

### 11.2. Independence

PKFCF is not aware of any matter or circumstance that would preclude it from preparing this Report on the grounds of independence, either under regulatory or professional requirements. In particular, we had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

PKFCF notes that it has been engaged to act as Investigating Accountant in relation to the Prospectus to be issued by Freshtel and that it does not consider such role to affect its independence.

PKFCF does not have any shareholding in, or other relationship with Freshtel of FSG (including any of their related parties or associates) that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Acquisition.

PKFCF considers itself to be independent in terms of ASIC Regulatory Guide 112 *Independence of Experts* ("**RG 112**"), issued by ASIC.

PKFCF will receive a fee based on the time spent in the preparation of this Report. PKFCF will not receive any fee contingent upon the outcome of the Offer.

Drafts of this Report were provided to the Directors of Freshtel and FSG for review of factual accuracy. Certain changes were made to the Report as a result of the circulation of the drafts of the Report. However, our approach, valuation method and overall conclusions were not affected by the circulation of the draft reports.

## Appendix 1 Glossary of terms

Set out below is a glossary of terms used in this Report.

**Table 25: Glossary**

| Term | Definition |
|---|---|
| **ABS** | Australia Bureau of Statistics |
| **Acquisition** | On 23 November 2016, Freshtel announced that it had entered into a binding agreement to acquire 100% of the issued shares of FSG |
| **AFSL** | Australian Financial Services Licence (No. 295872) |
| **APES 225** | Australian & Ethical Standards Board Standard 225 *Valuation Services* |
| **ASIC** | Australian Securities & Investments Commission. |
| **ASX** | Australian Securities Exchange |
| **Capital Raising** | Freshtel completing a capital raising of not less than $3 million through the issue of not less than 100,000,000 ordinary shares at an issue price of $0,03 per share (on a post-Consolidation basis) |
| **CFME** | Capitalisation of future maintainable earnings |
| **Company** | Freshtel Holdings Limited (ASX:FRE)<br>ACN 111 460 121 |
| **Consideration Shares** | Acquisition is to be funded via the issue of 185,714,286 ordinary shares in Freshtel to the Vendors |
| **Consolidation** | Consolidation of Freshtel's capital on the basis that every 50 shares / options be consolidated into 1 share / option |
| **Convergent** | Convergent Technology Holdings Pty Ltd<br>ACN 115 483 659<br>Also, the "Vendor" |
| **Corporations Act** | The *Corporations Act 2001* |
| **CRM** | Client relationship management |
| **DCF** | Discounted cash flow |
| **Director Shares** | Freshtel to issue (on a post-Consolidation basis) up to 6,000,000 Freshtel Shares to existing directors of the Company |
| **EBIT** | Earnings before interest and tax |
| **EBITA** | Earnings before interest, tax and amortisation |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **ERP** | Enterprise resource planning |
| **Facilitator Shares** | Freshtel to issue (on a post-Consolidation basis) up to 4,000,000 Freshtel Shares to facilitators of the Acquisition and/or to the Company |
| **FME** | Future maintainable earnings |
| **FOS** | Financial Ombudsman Service |
| **Freshtel** | Freshtel Holdings Limited (ASX:FRE)<br>ACN 111 460 121 |
| **FSG** | Field Solutions Group Pty Ltd<br>ACN 155 490 074 |
| **FY2014** | Year ended 30 June 2014 |
| **FY2015** | Year ended 30 June 2015 |
| **FY2016** | Year ended 30 June 2016 |

| Term | Definition |
|---|---|
| **FY2017** | Year ending 30 June 2017 |
| **FY2017 YTD** | Five months to 30 November 2016 |
| **NBN** | National Broadband Network |
| **Non-Associated Shareholders** | Freshtel's shareholder who are not associated with the Acquisition |
| **NPAT** | Net profit after tax |
| **NPBT** | Net profit before tax |
| **NPV** | Net present value |
| **PKFCF, us, we or our** | PKF Corporate Finance (NSW) Pty Limited<br>ACN 097 893 957<br>AFSL 295872 |
| **Proposed Directors** | Proposed directors of the Company following completion of the Acquisition |
| **Report** | This report dated 12 January 2016 |
| **RG 111** | ASIC Regulatory Guide 111 *Content of Expert Reports* |
| **RG 112** | ASIC Regulatory Guide 112 *Independence of Experts* |
| **RG 76** | ASIC Regulatory Guide 76 *Related Party Transactions* |
| **SPM** | Supply chain management |
| **Target** | Field Solutions Group Pty Ltd<br>ACN 155 490 074 |
| **Transactions** | Together, the Acquisition, Consolidation, Capital Raising and the issue of the Facilitator Shares and the Director Shares |
| **Valuation Date** | Being 30 November 2016 |
| **Vendor** | The sole shareholder of FSG (i.e. "Convergent" - see definition above) |
| **Vixtel** | Vixetel Pty Ltd, the business to which Freshtel sub-contracts its VOIP business |
| **VOIP** | Voice over internet protocol |
| **VWAP** | Volume weighted average price |

## Appendix 2 Sources of Information

In preparing this Report we have had access to and relied upon the following principal sources of information:

- Draft Notice of General Meeting of Freshtel Holdings Limited to be held on 13 March 2017;
- Audited Annual Reports of Freshtel Holdings Limited for the years ended 30 June 2014, 2015 and 2016;
- Unaudited management accounts of Freshtel Holdings Limited for the five (5) months ended 30 November 2016;
- Audited special purpose financial statements of Field Solutions Group Pty Ltd for the years ended 30 June 2014, 2015 and 2016;
- Unaudited management accounts of Field Solutions Group Pty Ltd for the five (5) months ended 30 November 2016;
- Budgeted of Field Solutions Group Pty Ltd for the year ending 30 June 2017;
- Other information published by Freshtel Holdings Limited on the Australian Securities Exchange including the announcement of Freshtel Holdings Limited entering into a binding agreement to acquire Field Solutions Group Pty Ltd;
- Other information published by Freshtel Holdings Limited on its website;
- Other information published by Field Solutions Group Pty Limited on its website;
- IBISWorld Industry Report, "Wireless Telecommunications Carrier", August 2016;
- IBISWorld Industry Report, "Computer System Design Services in Australia", September 2016;
- IBISWorld Industry Report, "Data Storage Services in Australia", November 2016;
- IBISWorld Industry Report, "Data Processing and Web Hosting Services in Australia", September 2016;
- S&P Capital IQ;
- other publicly available information.

In addition to the above, PKFCF has also had various discussions with the management of Freshtel and FSG regarding the nature and prospects of their respective businesses and their financial performance and position.

## Appendix 3 Valuation methods

In conducting our assessment of the Acquisition, the following commonly used valuation methods have been considered:

### Discounted Cash Flow Method

The discounted cash flow ("**DCF**") method is based on the premise that the value of a business or asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business or asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value ("**NPV**").

DCF is appropriate where:

- the businesses' or assets' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

### Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

### Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net value of the assets used in the business.

Valuation of net assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The value of the net assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The value of a trading company's net assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is usually attributable to intangible assets such as goodwill.

The value of net assets is relevant where a company is making sustained losses or profits at a level less than the required rate of return, where it is close to liquidation, where it is an asset holding company, or where all its assets are liquid. It is also relevant to businesses that are being segmented and divested and to value assets that are surplus to the core operating business. The net assets value methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the value of its net assets.

## Security Market Trading History

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

## Constant Growth Dividend Discount Model

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of Investors.

## Special Value

Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

## Appendix 4 Comparable Listed Companies

Set out below is a list of identified comparable companies that we have identified in relation to our valuation of FSG and a summary of relevant financial information. Highlighted items have been treated as outliers. A description of each of the identified comparable listed companies is set out in **Appendix 5**.

### Table 26: Comparable Listed Companies

| | | | Market Data | | Revenue & Revenue Multiples | | | | EBITDA & EBITDA Multiples | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company name | Country | Latest Report FY | Market Cap AUDm | Enterprise Value AUDm | Revenue LTM AUDm | Revenue NTM AUDm | Revenue multiple LTM | Revenue multiple NTM | EBITDA LTM AUDm | EBITDA NTM AUDm | EBITDA multiple LTM | EBITDA multiple NTM |
| Telecommunications and Cloud-Based Solutions | | | | | | | | | | | | |
| Over the Wire Holdings Limited | Australia | 30/06/2016 | 103 | 96 | 24.0 | 29.1 | 4.0 | 3.3 | 5.4 | 7.0 | 17.9 | 13.7 |
| Inabox Group Limited | Australia | 30/06/2016 | 25 | 33 | 82.5 | n/a | 0.4 | n/a | 4.1 | n/a | 8.0 | n/a |
| Telecommunications Only | | | | | | | | | | | | |
| Vocus Communications Limited | Australia | 30/06/2016 | 2,564 | 3,330 | 832.5 | 1,850.0 | 4.0 | 1.8 | 206.8 | 438.2 | 16.1 | 7.6 |
| SpeedCast International Limited | Australia | 31/12/2015 | 738 | 867 | 206.4 | 377.0 | 4.2 | 2.3 | 35.0 | 81.8 | 24.8 | 10.6 |
| TPG Telecom Limited | Australia | 31/07/2016 | 6,058 | 7,401 | 2,387.4 | 2,552.1 | 3.1 | 2.9 | 770.9 | 831.6 | 9.6 | 8.9 |
| Telstra Corporation Limited | Australia | 30/06/2016 | 60,119 | 74,544 | 26,622.9 | 28,670.8 | 2.8 | 2.6 | 9,681.0 | 10,803.5 | 7.7 | 6.9 |
| Spark New Zealand Limited | New Zealand | 30/06/2016 | 6,385 | 7,173 | 3,415.7 | 3,415.7 | 2.1 | 2.1 | 797.0 | 969.3 | 9.0 | 7.4 |
| Hutchison Telecommunications (Australia) Limited | Australia | 31/12/2015 | 1,059 | 1,268 | 7.2 | n/a | 177.2 | n/a | n/a | n/a | n/a | n/a |
| Chorus Limited | Australia | 30/06/2016 | 1,537 | 3,390 | 968.6 | 997.1 | 3.5 | 3.4 | 737.0 | 605.4 | 4.6 | 5.6 |
| MNF Group Limited | Australia | 30/06/2016 | 314 | 276 | 162.4 | 197.1 | 1.7 | 1.4 | 16.4 | 20.8 | 16.8 | 13.3 |
| Spirit Telecom Limited | Australia | 30/06/2016 | 24 | 24 | 8.9 | n/a | 2.7 | n/a | 0.0 | n/a | 1880.4 | n/a |
| Macquarie Telecom Group Limited | Australia | 30/06/2016 | 231 | 194 | 194.0 | n/a | 1.0 | n/a | 24.9 | n/a | 7.8 | n/a |
| Cloud-Based Solutions | | | | | | | | | | | | |
| 9 Spokes International Limited | Australia | 31/03/2016 | 60 | 42 | 0.2 | n/a | 226.8 | n/a | n/a | n/a | n/a | n/a |
| Bulletproof Group Limited | Australia | 30/06/2016 | 40 | 38 | 47.5 | n/a | 0.8 | n/a | 3.5 | n/a | 10.8 | n/a |
| NEXTDC Limited | Australia | 30/06/2016 | 898 | 872 | 89.0 | 117.8 | 9.8 | 7.4 | 27.8 | 48.2 | 31.4 | 18.1 |
| Cirrus Networks Holdings Limited | Australia | n/a | 14 | 14 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Data#3 Limited | Australia | 30/06/2016 | 253 | 152 | 760.0 | 1,520.0 | 0.2 | 0.1 | 19.7 | 25.8 | 7.7 | 5.9 |
| JCurve Solutions Limited | Australia | 30/06/2016 | 5 | 3 | 10.0 | n/a | 0.3 | n/a | 0.0 | n/a | 5214.3 | n/a |
| **Mean** | | | | | | | **26.2** | **2.7** | | | **484.5** | **9.8** |
| **Median** | | | | | | | **2.8** | **2.5** | | | **10.8** | **8.3** |
| **Mean (excl. outliers)** | | | | | | | **1.7** | **1.8** | | | **13.4** | **10.9** |
| **Median (excl. outliers)** | | | | | | | **1.0** | **1.9** | | | **10.8** | **12.0** |

*Source: S&P Capital IQ (downloaded on 15 January 2017, data as at 30 November 2016), PKFCF Analysis*

***Notes:***

*1) LTM = Last Twelve Months, NTM = Next Twelve Months, FY = Latest fully-reported Financial Year, CAGR = Compound Annual Growth Rate, AVG = Average*

*2) Outliers have been shaded and excluded from the calculation of mean and median (where specified)*

## Appendix 5 Description of Comparable Listed Companies

Set out below is a description of the comparable listed companies identified in **Appendix 4**:

### Table 27: Description of Comparable Listed Companies

| Comparable companies - Business description | |
|---|---|
| **Company name** | **Business description** |
| Telecommunications and Cloud-Based Solutions | |
| Over the Wire Holdings Limited | Over the Wire Holdings Limited provides telecommunications, cloud, and IT solutions to business and residential customers in Australia and New Zealand. The company offers Internet connectivity services to enable Internet services, video conferencing, Software as a Service applications, and online collaboration for various businesses. It also provides Session Initiation Protocol based Internet voice solutions; and operates a platform that supports various client usage scenarios, from Private Branch exchanges (PBX) to call center dialers, for inbound and outbound calling. In addition, the company offers a range of private cloud-based services consisting of Infrastructure as a Service, hosted PBX, and Amazon Web Services Direct Connect and Microsoft Azure Express Route, as well as managed services. Further, it allows customers to house their equipment, such as servers and network equipment. Over the Wire Holdings Limited was founded in 2005 and is headquartered in Brisbane, Australia. |
| Inabox Group Limited | Inabox Group Limited provides information technology (IT), cloud, and telecommunications products and services under the Anittel Communications brand in Australia. It operates in three segments: Direct, Indirect, and Enablement. The company also offers wholesale telecommunications solutions, including Voice over IP (VoIP), business grade data, fixed voice, mobile, inbound, NBN, and cloud products; and back end support solutions, such as provisioning, billing, fault management, and customer support, as well as a range of training and accreditation programs under the Telcoinabox brand. In addition, it provides wholesale VoIP services comprising carrier-class VoIP infrastructure, and access to broadband and fixed line services, as well as VoIP/SIP trunks, hosted PBX, call termination services, DID's/inbound services, and PSTN/ISDN through a hosted white label billing portal under the Ivox brand. Further, the company offers cloud services consisting of co-location, cloud desktop, Infrastructure as a Service, cloud back-up, cloud Web-hosting, business Internet, private IP and MPLS, and carrier IP transit services under the Neural Networks brand. It serves ISPs, telecommunications companies, VoIP providers, managed IT service providers, PBX integrators, small business operators, off-shore call centers, and retail service providers. The company was founded in 2003 and is based in Sydney, Australia. |
| Telecommunications | |
| Vocus Communications Limited | Vocus Communications Limited provides telecommunications and other services in Australia and New Zealand. The company offers data network solutions, including Dark Fiber, a fiber-optic point-to-point connection; Ethernet services; Ethernet Multipoint service that provides layer 2 connectivity across multiple offices or data centers; IP WAN, an easy-to-manage wide area network; and cloud connect, a high-speed connection to public clouds. It also provides Internet solutions; IP Tel, which enables team collaborate with a suite of advanced telephony and integration features; SIP trunks that connect business to the public switched telephone networks; and cloud collaboration solutions that connect people through real-time applications, such as telephony, video conferencing, instant messaging, presence, and mobility. In addition, the company offers cloud services, including cloud computer, backup and archive, and data recovery services; and operates network connectivity and data center facilities, as well as provides wholesale solutions. Vocus Communications Limited was founded in 2008 and is based in North Sydney, Australia. |
| SpeedCast International Limited | SpeedCast International Limited, together with its subsidiaries, provides network and satellite communications services worldwide. It designs, deploys, operates, and maintains networks, including installation and configuration of equipment; and offers value added services, such as user applications, network optimization, and networking monitoring and management. The company also sells equipment, including VSAT terminals that send and receive transmitted data, modems, routers, and other types of equipment related to the provisioning of value-added services; and provide wholesale VoIP services to telecom customers. In addition, it offers technical consultancy services, maritime and offshore satellite communication and broadband services, high speed broadband satellite services, satellite broadband Internet services, and digital media services. The company serves cellular, maritime, oil and gas energy, government, mining, and NGO clients. SpeedCast International Limited was founded in 1999 and is headquartered in Wanchai, Hong Kong. |

| Comparable companies - Business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| Telecommunications (continued) | |
| TPG Telecom Limited | TPG Telecom Limited provides telecommunication services to residential users, small and medium enterprises, government, corporate enterprises, and w holesale customers in Australia and internationally. The company operates through three segments: TPG Consumer, TPG Corporate, and iiNet. It offers ADSL2+, NBN, fiber optic and Ethernet broadband access, telephony services, Internet protocol television, SIM only mobile plans, and various business netw orking solutions. The company also provides various bundle plans; Internet products, including broadband off-net and business SHDSL solutions; domain name and Website hosting, POP3 email, Internet message access protocol email account, IP addresses, and phone cards; and video surveillance, and business VoIP and mobility services. In addition, it offers virtual private netw ork, point-to-point, Ethernet multipoint connectivity, w avelength, and dark fiber services; SIP and inbound voice, ISDN PRI and PSTN, and BizPhone services; private cloud, virtual data center, national AWS connect, and co-location services. The company w as formerly know n as SP Telemedia Limited and changed its name to TPG Telecom Limited in December 2009. TPG Telecom Limited is headquartered in North Ryde, Australia. |
| Telstra Corporation Limited | Telstra Corporation Limited provides telecommunications and information services to businesses, governments, communities, and individuals in Australia and internationally. The company operates through Telstra Retail, Global Enterprise and Services, Telstra Operations, and Telstra Wholesale segments. It offers a range of telecommunication products, services, and solutions across mobiles, fixed and mobile broadband, telephony, and pay television; data and Internet protocol netw orks; netw ork applications and services, such as managed netw ork, unified communications, cloud, industry solutions, and integrated services; and hybrid fiber coaxial cable services. The company also provides telecommunication products and services to carriers, carriage service providers, and Internet service providers; netw ork design and consulting services; and connected health IT ecosystem for the healthcare sector. In addition, it offers digital media content services; eHealth solutions for primary care, aged and residential care, hospitals, radiology and pathology, pharmacy, indigenous care, and telemedicine; advertising services; and connectivity solutions, such as managed netw ork services, as w ell as data, voice, and satellite solutions. The company serves approximately 5,60,000 retail mobile customers and 2,35,000 retail fixed broadband customers. It distributes its services through 358 Telstra stores, 83 business centers, and 16,500 retail points. The company w as formerly know n as Australian and Overseas Telecommunications Corporation Limited and changed its name to Telstra Corporation Limited in April 1993. Telstra Corporation Limited w as founded in 1901 and is based in Melbourne, Australia. |
| Spark New Zealand Limited | Spark New Zealand Limited, together w ith its subsidiaries, provides telecommunications, and information and communications technology (ICT) products and services in New Zealand and internationally. The company's Spark Home, Mobile & Business segment offers fixed line, mobile, and Internet services to consumers and small-medium business markets. Its Spark Digital segment integrates IT and telecommunications services to provide converged ICT solutions. The company's Spark Connect segment develops and operates Spark New Zealand's telecommunications netw orks and IT platforms, as w ell as provides services to w holesale and international customers. The company also provides business cloud and outsourced telecommunications services; retails telecommunications products and services; subscribes video-on-demand services; and operates as an IT infrastructure and data center provider. It has 2.293 million mobile connections. The company w as formerly know n as Telecom Corporation of New Zealand Limited and changed its name to Spark New Zealand Limited in August 2014. Spark New Zealand Limited w as founded in 1987 and is based in Auckland, New Zealand. |
| Hutchison Telecommunications (Australia) Limited | Hutchison Telecommunications (Australia) Limited, through its 50% interest in Vodafone Hutchison Australia Pty Limited, provides mobile telecommunications services in Australia. It offers its telecommunications and 3G services under the Vodafone and 3 brand names. The company w as founded in 1989 and is based in North Sydney, Australia. Hutchison Telecommunications (Australia) Limited is a subsidiary of Hutchison Telecommunications (Amsterdam) B.V. |
| Chorus Limited | Chorus Limited provides fixed line communications infrastructure services in New Zealand. It offers phone and broadband services over copper and fiber netw orks for residential and business customers; very high speed digital subscriber line broadband services for high-end residential users and small businesses; and voice-only services on its netw ork. The company also provides top-of-the-line services for corporate customers, schools, and medical centers; products over copper and fiber for corporate and larger users; dark fiber, a basic direct fiber access service; and grey fiber, a bandw idth fiber access service. In addition, it offers fiber access connections to providers' equipment in another exchange or connects tw o exchanges w ithin the same area; commercial access to its exchanges, poles, and other infrastructure; and specialist development and testing facilities to providers. The company has approximately 1.8 million lines that are connected to homes and businesses. Chorus Limited w as founded in 2008 and is based in Wellington, New Zealand. |

| Comparable companies - Business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| Telecommunications (continued) | |
| MNF Group Limited | MNF Group Limited provides voice communications, broadband Internet, and cloud based communications services to residential, business, government, and w holesale customers in Australia and internationally. It offers home phone-VoIP, DSL Internet, and NBN Internet services, as w ell as virtual fax service, w hich delivers faxes to nominated email address as PDF documents and sends faxes from w indow s PC. The company also provides high-speed broadband Internet services and Ethernet broadband services; business telephony and phone systems, and SIP trunking for office phone systems; and add on services, such as phone number, voice conferencing, and desktop SMS services for businesses. In addition, it offers enterprise services, including telephony, enterprise fax, conferencing, and enterprise SMS services. The company w as formerly know n as My Net Fone Limited and changed its name to MNF Group Limited in October 2015. The company w as founded in 2004 and is headquartered in Sydney, Australia. |
| Spirit Telecom Limited | Spirit Telecom Limited provides telecommunication and high speed Internet services to commercial and residential customers in Australia. It offers apartment fiber broadband, student broadband, and NBN broadband services, as w ell as residential IP phones; and fiber broadband, mid-band Ethernet, fixed w ireless Ethernet, fully managed MPLS VPN, and IP phone training, as w ell as cloud hosted PBX, office phones relocation, and audio teleconferencing services for business customers. The company is headquartered in Prahran, Australia. |
| Macquarie Telecom Group Limited | Macquarie Telecom Group Limited provides telecommunication and hosting services to corporate and government customers in Australia. It offers voice services, such as fixed-line voice, unified communications, and video and Web conferencing services; managed mobility services and mobile management tools; and cloud services, including hybrid, VMWare, and private cloud services, as w ell as dedicated servers, colocation, managed hosting, management tools, and data center extension services. The company also provides data services, including Internet, fixed w ireline Ethernet, private IP-VPN, Cisco Meraki, business NBN, international data links, SIP trunking, SaaS enabled WAN, secure remote access, and business Ethernet access. Macquarie Telecom Group Limited w as founded in 1992 and is headquartered in Sydney, Australia. |
| Cloud-Based Solutions | |
| 9 Spokes International Limited | 9 Spokes International Limited develops an online, and softw are-as-a-service application platform and store for the small and medium enterprises in New Zealand, Australia, and the United Kingdom. Its softw are-as-a-service application platform and store allow s a business to access a range of online services made available on softw are-as-a-service basis by third party vendors. The company also incorporates a dashboard that takes data from third party services and among other things; and provides a graphical snapshot of the status of that business. In addition, it develops and licenses bespoke versions of the platform for third party channels that offers the features of the platform and store to channel customers. 9 Spokes International Limited w as founded in 2011 and is based in Auckland, New Zealand. |
| Bulletproof Group Limited | Bulletproof Group Limited provides managed cloud, hosting, and professional services primarily for enterprise customers in Australia, the United States, and New Zealand. Its products and services include Amazon Web Services (AWS); AWS consulting, delivery, and support services; AWS business and enterprise support; AWS cloud migration; and custom AWS projects. The company also offers VMw are-based hosting solutions, such as VMw are consult, deliver, support, dedicated server options, and support plans; hybrid cloud solutions; and application and SaaS cloud hosting services comprising Web and digital, back office, non-digital, operational, and custom in-house built applications. In addition, it provides professional services, including initial consultation, strategy, technical delivery, implementation, on-going management, support, and continuous improvement services. Further, the company offers cloud solutions for application hosting and SaaS, campaign and Websites, cloud strategy, cloud migration, DevOps, agile development and automation, e-commerce, availability and uptime optimization, performance optimization, scalability, and security. Bulletproof Group Limited w as founded in 2000 and is based in Sydney, Australia. |

| Comparable companies - Business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| Cloud-Based Solutions (continued) | |
| NEXTDC Limited | NEXTDC Limited provides data center outsourcing solutions, connectivity services, and infrastructure management softw are in Australia. It offers on-demand services to support outsourced data center infrastructure and cloud connectivity for enterprises; data center professional services for the project life cycle, including technical advisory, migration planning, project management, deliveries, building, and operational infrastructure support; and onsite technical assistance services. The company's data centers provide NEXTDC rack packages, a private suite and custom options for individual or multiple racks; and AXONVX, a virtual connectivity platform designed to deliver connectivity-as-a-service. In addition, it offers security systems and protocols, such as multi-layered access systems w ith biometric fingerprint technology and ID access cards w ith photo and biometric template technology; and cross connect services; and ONEDC, a cloud based data center infrastructure management-as-a-service that delivers real-time data center intelligence to its customers to manage their data center assets. NEXTDC Limited w as founded in 2010 and is headquartered in Brisbane, Australia. |
| Cirrus Netw orks Holdings Limited | Cirrus Netw orks Holdings Limited, together w ith its subsidiary, provides information technology (IT) products and services. The company offers a range of solutions, including data center and cloud; convergence; storage, big data, and data management; netw ork design and optimization; business continuity; end user computing; unified communications and IP telephony; lifecycle management; IT consulting and management; and project management solutions. It also provides infrastructure, netw ork, backup, IT security, and service desk managed services. In addition, the company offers auditing, diagnostic, monitoring, and secure access services to protect and secure netw orks. Further, the company provides IT integration solutions and managed services. Cirrus Netw orks Holdings Limited w as founded in 2003 and is headquartered in Subiaco, Australia. |
| Data#3 Limited | Data#3 Limited, together w ith its subsidiaries, provides information technology (IT) solutions primarily in Australia. The company operates through tw o segments, Product and Services. The Product segment provides hardw are and softw are licenses for customers' desktop, netw ork, and data center infrastructure. The Services segment offers consulting, project, managed, and maintenance contracts, as w ell as w orkforce recruitment and contracting services in relation to the design, implementation, operation, and support of ICT solutions. It also provides data and analytics, hybrid IT/cloud, IT lifecycle management, mobility, and security solutions; and industry solutions ranging from IT recruitment and augmentation to enterprise and school applications. Data#3 Limited w as founded in 1977 and is headquartered in Toow ong, Australia. |
| JCurve Solutions Limited | JCurve Solutions Limited, a cloud technology company, engages in softw are development and solutions businesses for corporate and government clients primarily in Australia. Its solutions comprise cloud-based ERP softw are for the small business markets; and telecommunications expense management and analysis products; and inventory management, w holesale distribution, and w arehouse management softw are, as w ell as ERP solutions for packaging suppliers, and organic and health food w holesalers. It provides implementation, training, support, accounting, and consulting services. The company w as formerly know n as Stratatel Limited and changed its name to JCurve Solutions Limited in December 2013. JCurve Solutions Limited w as founded in 1997 and is headquartered in Chatsw ood, Australia. |

*Source: S&P Capital IQ (downloaded on 12 January 2017, data as at 30 November 2016), PKFCF Analysis*

## Appendix 6 Comparable Merger & Acquisition Transactions

Set out below is a list of identified comparable transactions that we have identified in relation to our valuation of FSG and a summary of relevant financial and transaction information. A description of each of the identified comparable targets is set out in **Appendix 7**.

### Table 28: Comparable Merger & Acquisition Transactions

| | | | | | | Transaction Price | | Valuation Multiples | |
|---|---|---|---|---|---|---|---|---|---|
| Buyer | Target | Target Country | Announcement Date | Close Date | % Acquired | Equity Value (AUDm) | Enterprise Value (AUDm) | Revenue multiple | EBITDA multiple |
| Telecommunications and Cloud-Based Solutions | | | | | | | | | |
| Superloop Limited | BigAir Group Limited | Australia | 09/13/2016 | 9/12/2016 | 100.0% | 136 | 163 | 2.0 | 9.6 |
| BigAir Group Limited | Oriel Technologies Pty Ltd. | Australia | 11/18/2014 | 19/12/2014 | 100.0% | 4 | 14 | 0.7 | 17.0 |
| Vocus Communications Limited | Nextgen Networks Group Pty. Limited | Australia | 06/29/2016 | 26/10/2016 | 100.0% | 700 | 700 | 3.1 | 7.6 |
| Vocus Communications Limited | Amcom Telecommunications Limited | Australia | 10/24/2014 | 8/07/2015 | 100.0% | 686 | 704 | 4.2 | 15.5 |
| TPG Telecom Limited | iiNet Limited | Australia | 3/13/2015 | 7/09/2015 | 93.8% | 1,064 | 1,446 | 1.3 | 7.4 |
| TPG Telecom Limited | Telecom New Zealand Australia Pty Limited | Australia | 12/08/2013 | 28/02/2014 | 100.0% | 450 | 450 | 1.1 | 8.2 |
| Telstra Corporation Limited | Inabox Group Limited, Hosted Collaboration Solutions business assets | Australia | 06/30/2016 | n/a | 100.0% | 5 | 5 | 1.2 | 3.8 |
| Telecommunications Only | | | | | | | | | |
| BigAir Group Limited | Intelligent IP Communications Pty Ltd | Australia | 8/06/2013 | 13/09/2013 | 100.0% | 10 | 21 | 2.3 | 15.3 |
| BigAir Group Limited | Unistar Enterprises Pty Ltd. | Australia | 4/22/2014 | 30/04/2014 | 100.0% | 1 | 1 | 0.6 | 30.2 |
| Over the Wire Holdings Limited | Faktortel Holdings Pty Ltd | Australia | 07/28/2015 | 28/07/2015 | 100.0% | 1 | 5 | n/a | n/a |
| Vocus Communications Limited | Skiron Holdco Pty Limited | Australia | 06/29/2016 | n/a | 100.0% | 107 | 134 | n/a | n/a |
| Vocus Group Pty Limited | M2 Group Ltd | Australia | 9/27/2015 | 28/02/2016 | 100.0% | 2,286 | 2,769 | 2.5 | 16.7 |
| Vocus (New Zealand) Holdings Limited | FX Networks Ltd. | New Zealand | 6/30/2014 | 16/09/2014 | 100.0% | 59 | 108 | 2.0 | 9.0 |
| Cloud-Based Solutions | | | | | | | | | |
| BigAir Group Limited | Applaud It Pty Ltd | Australia | 7/01/2015 | 1/07/2015 | 100.0% | 1 | 1 | n/a | n/a |
| Over the Wire Holdings Limited | Telarus Pty Ltd | Australia | 12/08/2016 | n/a | 100.0% | 8 | 8 | n/a | 5.0 |
| Bulletproof Group Limited | Infoplex Pty Ltd. | Australia | 9/16/2015 | 8/10/2015 | 100.0% | 4 | 4 | 0.6 | 2.5 |
| Nomura Research Institute, Ltd. | ASG Group Limited | Australia | 09/30/2016 | 12/12/2016 | 100.0% | 329 | 343 | 1.8 | 14.3 |
| Stratatel Limited (nka:JCurve Solutions Limited) | JCurve Solutions Pty Ltd (nka:JCurve Solutions Ltd) | Australia | 9/16/2013 | 31/10/2013 | 100.0% | 4 | 6 | 3.6 | NM |
| **Mean** | | | | | | | | **1.9** | **11.6** |
| **Median** | | | | | | | | **1.9** | **9.3** |
| **Mean (excl. outliers)** | | | | | | | | **1.9** | **10.1** |
| **Median (excl. outliers)** | | | | | | | | **1.9** | **9.0** |

*Source: S&P Capital IQ (downloaded on 12 January 2017, data as at 30 November 2016), PKFCF Analysis*

*Notes:*

*1) LTM = Last Twelve Months, NTM = Next Twelve Months, FY = Latest fully-reported Financial Year, CAGR = Compound Annual Growth Rate, AVG = Average*

*2) Outliers have been shaded and excluded from the calculation of mean and median (where specified)*

## Appendix 7 Description of Comparable Merger & Acquisition Targets

Set out below is a description of the comparable merger and acquisition targets identified in **Appendix 6**:

| Merger & Acquisition Transactions - Target companies business description | |
|---|---|
| **Company name** | **Business description** |
| Telecommunications and Cloud-Based Solutions | |
| BigAir Group Limited | BigAir Group Limited, together w ith its subsidiaries, provides managed services, cloud-based solutions, and netw orking infrastructure in Australia. It operates through Fixed Wireless for Business, BigAir Community Broadband, and Cloud Managed Services segments. The company offers a range of netw ork services, including w ide area netw ork, fixed w ireless netw ork, local area netw ork, fixed line connectivity, multi-protocol label sw itching VPNs, HD video conferencing, VOIP ISDN IP telephony, w ireless LAN solutions, private netw orks, and high-speed business Internet services to support data, video, application, storage, and communication across organizations. It also provides cloud and managed services, such as cloud infrastructure, cloud backup, data infrastructure, desktop-as-a-service, infrastructure-as-a-service, WiFi-as-a-service, unified communications, w ide–area netw ork optimization, IT infrastructure management, business continuity, and consulting services. In addition, the company offers outsourced managed Internet services in the tertiary student accommodation market; and managed communications and WiFi solutions into retirement living villages, shopping centers, local |
| Oriel Technologies Pty Ltd. | Oriel Technologies Pty Ltd. provides end-to-end IT infrastructure service and solutions. It offers managed IT services, netw orking, systems, communications, support, managed WAN, infrastructure as a service, plus private, hybrid and public cloud services, data infrastructure solutions, consulting IT services, business continuity solutions, and unified communications solutions. The company also provides managed IT services include hosted infrastructure–as–a–service, managed WAN optimization, managed cloud backup, IT infrastructure management, and office recovery services; and provides integration services and project management, professional services, netw ork and w ireless health checks and assessments, insource services, IT audit services, and IT relocation services. In addition, it offers consulting services, such as business–driven IT strategies and roadmaps that include information security, business continuity, IT risk management, and strategic IT planning services; business continuity solutions that include data infrastructure, backup solutions, recovery infrastructure, and archiving and compliance; and unified communications solutions, such as IP telephony, unified messaging, collaboration, mobility, conferencing and telepresence, and security solutions. Further, the company offers data center solutions, such as compute infrastructure, backup and restoration, automated offsite backup, business continuity and disaster recovery, deduplication and archiving, and Microsoft licensing and solutions; netw ork solutions that include LAN and WAN, data center netw orking, w ireless netw orking and mobility, unified communications, and WAN optimization and application acceleration; and security solutions, including firew alls, virus protection, anti–spam, URL and content filtering, Email filtering, authentication, and intrusion detection and prevention. Oriel Technologies Pty Ltd. w as founded in 1995 and is based in Lane Cove, Australia. As of December 19, 2014, Oriel Technologies Pty Ltd. operates as a subsidiary of BigAir Group Limited. |
| Nextgen Netw orks Group Pty. Limited | Nextgen Netw orks Group Pty. Limited w as incorporated in 2013 and is headquartered in Australia. As of October 26, 2016, Nextgen Netw orks Group Pty. Limited operates as a subsidiary of Vocus Communications Limited. |
| Amcom Telecommunications Limited | Amcom Telecommunications Limited operates as an IT and telecommunications company in Australia. It operates in Telecommunications, Hosted and Cloud Services, and IT Services segments. The company offers data and netw ork solutions, including Internet and Ethernet services, fiber-optic point-to-point connectivity solutions, managed layer 3 VPN services, and VPN link services; unified solutions, such as cloud collaboration, SIP lines, and on premise services for communication needs, as w ell as Amcom IP Tel, a customised solution to access unified communications features and functions; and cloud services comprising Web solutions. It also provides managed IT services, including netw ork, infrastructure, desktop, and IT service management services, as w ell as WiFi as a service; licensing and maintaining solutions, such as Amcom Active, w hich consolidates, controls, and maintains the licensing and maintenance requirements of organization's IT; and data centre management services. In addition, the company provides IT services, such as systems; communications; information, communication, and technology consulting (ICT) services comprising technology and infrastructure audits, and ICT strategy; and security, governance, risk, and compliance services. Further, it offers consumer DSL services; and infrastructure-as-a-service. The company w as formerly know n as Fibertel Limited and changed its name to Amcom Telecommunications Limited in June 2000. The company w as incorporated in 1993 and is headquartered in Perth, Australia. As of July 8, 2015, Amcom Telecommunications Limited operates as a subsidiary of Vocus Communications Limited. |

| Merger & Acquisition Transactions - Target companies business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| iiNet Limited | iiNet Limited provides the Internet and telephony services to residential, corporate, and government customers in Australia. The company offers Internet solutions, such as business bundles, business national broadband network, naked DSL, mobile broadband solutions, ADSL broadband, VPN, fiber connections, and SHDSL for high speed connectivity. It also provides business desk phones, PSTN phones, and Voice over Internet Protocol systems, as well as business voice systems and SIP trunking solutions; mobile solutions, such as mobile phones, mobile fleet and broadband, iiNet Microsoft Lync, and tablets; Website solutions, including domain names, Web hosting, Microsoft exchange, and online shopping solutions; cloud computing; and installation and support services. In addition, the company offers Internet Protocol telephony network solutions for hosted voice, cloud, Internet, VPN, and mobile. It supplies approximately 1.8 million broadband, telephony, Internet Protocol TV, mobile, and other services to approximately 950,000 broadband subscribers. The company was founded in 1993 and is based in Perth, Australia. As of September 7, 2015, iiNet Limited operates as a subsidiary of TPG Telecom Limited. |
| Telecom New Zealand Australia Pty Limited | Telecom New Zealand Australia Pty Limited provides managed telecommunication and related information technology management services to large enterprises in Australia. It offers internet, data, and cloud services for businesses and wholesale customers. The company was incorporated in 1990 and is based in Sydney, Australia. As of February 28, 2014, Telecom New Zealand Australia Pty Limited operates as a subsidiary of TPG Telecom Limited. |
| Inabox Group Limited, Hosted Collaboration Solutions business assets | Hosted Collaboration Solutions business assets of Inabox Group Limited provides managed communications and information technology solutions. The asset is located in Australia. |
| Telecommunications | |
| Intelligent IP Communications Pty Ltd | Intelligent IP Communications Pty Ltd., a corporate unified communications carrier, provides IP telephony, video conferencing, private data networks, and secure high-speed Internet services to businesses worldwide. The company also provides high definition video and VPN services; and high-speed Internet and telephone services to residential customers throughout Australia. It serves organizations involved in mining, retail, franchising, tourism, manufacturing, and service industries. The company was founded in 2005 and is based in Perth, Australia. of September 13, 2013, Intelligent IP Communications Pty Ltd operates as a subsidiary of BigAir Group Limited. |
| Unistar Enterprises Pty Ltd. | Unistar Enterprises Pty Ltd., doing business as Star-Tech Communications, provides telecommunications engineering services in Australia. The company designs, engineers, installs, commissions, and maintains wireless local area networks, wireless ISPs, license free point-to-point links, and license point-to-point links. It also offers network management services. The company was founded in 1990 and is based in Sydney, Australia. As of April 30, 2014, Unistar Enterprises Pty Ltd. operates as a subsidiary of BigAir Group Limited. |
| Faktortel Holdings Pty Ltd | Faktortel Holdings Pty Ltd provides VoIP phone services in Australia. The company was incorporated in 2014 and is based in Australia. As of July 28, 2015, Faktortel Holdings Pty Ltd operates as a subsidiary of Over the Wire Holdings Limited. |
| Skiron Holdco Pty Limited | Skiron Holdco Pty Limited operates fiber optic networks that provide high-speed data networking to the northern and western regions of Australia. The company was incorporated in 2013 and is based in Melbourne, Australia. The company operates as a subsidiary of Nextgen Group Holdings Pty Ltd. |
| M2 Group Ltd | M2 Group Ltd provides telecommunications services, and electricity and gas to residential and business customers in Australia and New Zealand. It operates through three segments: Consumer, Business, and Wholesale. The Consumer segment provides telecommunication services, including fixed line voice and data services, as well as mobile services for the residential market. This segment also offers electricity and gas services; and financial services, such as car, home, and contents insurance products. The Business segment provides packaged telecommunications services and energy services comprising fixed line voice and terrestrial broadband Internet services, and electricity bundles, as well as mobile voice and data services for small business markets. The Wholesale segment offers a suite of fixed line voice services consisting of line rental services, mobile voice and data services, terrestrial broadband Internet services, and mobile telephones to the telecommunications reseller market. The company provides its products and services under the Commander, Engin, iPrimus, Dodo, Orcon, Slingshot, Flip, M2 Wholesale, CallPlus, and 2talk brands. M2 Group Ltd was founded in 1999 and is based in Melbourne, Australia. As of February 28, 2016, M2 Group Ltd operates as a subsidiary of Vocus Group Pty Limited. |

| Merger & Acquisition Transactions - Target companies business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| FX Netw orks Ltd. | FX Netw orks, Ltd. provides w ide area netw ork services and IP telephony exchange services in New Zealand. The company offers Internet services, voice Internet exchange peering, open service netw orking, and VoIP consulting services. Its Internet connectivity services include enhanced email, domain services, Web hosting, and national and international roaming services. FX Netw orks, Ltd. is based in Wellington, New Zealand. As of September 16, 2014, FX Netw orks Ltd. operates as a subsidiary of Vocus (New Zealand) Holdings Limited. |
| Cloud-Based Solutions | |
| Applaud It Pty Ltd | Applaud It Pty Ltd. provides information technology solutions. It offers managed, cloud, professional, and asset procurement and lifecycle management services. The company also provides cloud enablement, disaster recovery and back-up, enterprise collaboration, enterprise data and storage, IT service management, netw orking and security, and voice and data solutions. In addition, it sells audio/visual products, cables, computers, displays, netw orking products, point of sale products, pow er and rack equipment, printers, softw are, storage products, and supplies and media products through an online store. Applaud It Pty Ltd. has strategic technology partnerships w ith Microsoft, Amazon Web Services, Google, Dell, HP, Nimble, VMw are, Shoretel, and Citrix. The company w as founded in 2005 and is based in St Leonards, Australia. As of July 1, 2015, Applaud It Pty Ltd operates as a subsidiary of BigAir Group Limited. |
| Telarus Pty Ltd | Telarus Pty Ltd provides managed netw orks, managed security, and private cloud solutions for businesses w orldw ide. It offers netw ork solutions, such as private netw ork access, internet access, and business voice solutions; security solutions, including managed firew all, content filtering, and reporting solutions; and cloud solutions, such as private, public, and hybrid cloud solutions. The company also provides business continuity services in the areas of site evaluation; netw ork storage and data replication in co-located servers housed in carrier-grade data centers; use of replication and pre-defined failover plan to deliver near instant disaster recovery (DR) activation; and design, implementation, and testing of DR and business continuity plan, as w ell as incorporating w ith customers' ow n plans. In addition, it offers mobility services in the areas of private netw ork mobility, and mobility and internet access; and analytics services in the areas of data sources, data models, processing applications, computing pow er, analytic models, and sharing/storage of results. The company serves retail, professional services, and NFP sectors. Telarus Pty Ltd w as founded in 2002 and is based in Melbourne, Australia. |
| Infoplex Pty Ltd. | Infoplex Pty Ltd. provides managed Information Technology (IT) services to businesses and governments. It offers utility platform hosting and cloud services. The company also provides netw ork solutions that include managed netw ork devices; managed security services that offer managed firew all, managed intrusion detection system, and managed antivirus; managed firew all solutions; and managed intrusion prevention services. In addition, it offers server solutions, such as managed server and hosted server that manages hardw are failures, netw ork connectivity and BIOS, operating system, and antivirus and firmw are upgrades. Infoplex Pty Ltd. also provides private cloud services, w hich provide access to virtual server resources and storage on demand; and IT security consulting services. It offers on-demand storage and archiving services, and managed backup and recovery services. The company also provides firew all, VPN, and netw ork management; email and Web content verification products; and antivirus management services. Infoplex Pty Ltd. w as formerly know n as WebCon Pty Ltd. The company w as incorporated in 2000 and is based in St. Leonards, Australia. Infoplex Pty Ltd. operates as a former subsidiary of Leighton Contractors Pty Ltd. As of October 8, 2015, Infoplex Pty Ltd. operates as a subsidiary of Bulletproof Group Limited. |

| Merger & Acquisition Transactions - Target companies business description (continued) | |
|---|---|
| **Company name** | **Business description** |
| ASG Group Limited | ASG Group Limited provides information technology (IT) services in Australia. Its managed services include service and delivery management, services desk, desktop, database administration, network management, storage area network administration, security management, data center hosting, HP managed application, and remote database administration services; business solutions comprise Oracle business solutions and Oracle PeopelSoft services; SAP solutions consist of SAP Business One and ProSuite products, as well as iVend Retail, an integrated retail management suite; and enterprise analytics and performance solutions. The company's professional services include project and Microsoft professional services; specialist technical services; architecture consulting services; and IT service management solutions comprise ITSM process design and implementation, ITSM administration, knowledge management, change calendar, and HP software implementation services. In addition, its consulting services consist of strategic business analysis, IT service and supply chain transformation, and multi-channel transformation; and cloud services include private cloud services, infrastructure as a managed service solutions, Platform as a Service solutions, Software as a Service solutions, and consulting services. The company serves customers in mining, transport and manufacturing, government, education, communications and technology, healthcare, corporate, utilities, construction, and not for profit sectors. ASG Group Limited was founded in 1996 and is headquartered in Perth, Australia. As of December 12, 2016, ASG Group Limited operates as a subsidiary of Nomura Research Institute, Ltd. |
| JCurve Solutions Pty Ltd (nka:JCurve Solutions Ltd) | JCurve Solutions Pty Ltd. provides cloud based performance software to meet the business management needs of growing small and medium businesses in Australia, New Zealand, and internationally. It offers JCurve 'GO' for small businesses for the simple management of finance, payroll, inventory, and customers; JCurve 'GROW' for growing small businesses looking for an integrated software suite without the complexity of an enterprise product; and JCurve 'PRO' for small and medium sized business with sophisticated requirements for running their entire business. The company also provides NetSuitePOA for medium and large sized enterprises needing the power of NetSuite, a cloud business software suite; Fast Start 'Payroll' to configure payroll features and pay employees; JCurve Assist for consulting or training to help with various aspects of software; and customized implementation services. JCurve Solutions Pty Ltd. has a strategic technology alliance with NetSuite. The company was founded in 2009 and is based in Surry Hills, Australia. As of October 31, 2013, JCurve Solutions Ltd operates as a subsidiary of JCurve Solutions Limited. |

*Source: S&P Capital IQ (downloaded on 12 January 2017, data as at 30 November 2016), PKFCF Analysis*

## Appendix 8 Financial Services Guide

17 January 2017

### What is a Financial Services Guide?

This Financial Services Guide ("**FSG**") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided in the form of an independent expert report by PKF Corporate Finance (NSW) Pty Limited (ABN 65 097 893 957) ("**PKFCF**"). The use of "we", "us" or "our" is a reference to PKFCF as the holder of Australian Financial Services Licence ("**AFSL**") No. 295872.

The contents of this FSG include:

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

### Information about us

**What financial services are we licensed to provide?**

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

Provide financial product advice for the following classes of financial products:

- securities;
- interests in managed investment schemes excluding investor directed portfolio services; and
- deposit and payment products limited to;
    - basic deposit products;
    - deposit products other than basic deposit products; and
    - debentures, stocks or bonds issued or proposed to be issued by a government.

**Our responsibility to you**

We have been engaged by the Directors of Freshtel to prepare an Independent Expert's Report providing our opinion as to whether the Acquisition is fair and reasonable to the Non-associated Shareholders of the Client (the "**Report**"). Details of the Acquisition are set out in the Notice of Meeting and Explanatory Statement to which this Report accompanies. You are not the party or parties who engaged us to prepare the Report. We are not acting for any person other than the party or parties who engaged us. We are required by law to give you an FSG because the Report is being provided to you.

The liability of PKFCF is limited to the contents of this FSG and the Report referred to in this FSG.

### Information about the general financial product advice we provide

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

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

### Associations and relationships

PKFCF provides services primarily in the area of corporate finance and is partly owned by partners of the Sydney and Newcastle partnership of PKF, Chartered Accountants (**"PKF"**). PKF and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the partnership of PKF. The financial product advice in the Report is provided by PKFCF and not by the partnership of PKF.

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 the partnership of PKF (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

### How are we and our employees remunerated?

We charge fees for providing Reports. Fees are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us. Our fees are usually determined on an hourly basis. However they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services. The estimated fee for the Report is $35,000 (exclusive of GST and out-of-pocket expenses).

Neither PKFCF, nor its directors and officers, receive any commissions or other benefits arising directly from providing Reports to you. The remuneration paid to our directors and staff reflects their individual contribution to the company and covers all aspects of performance. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

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

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

AFS Compliance Manager
PKF Corporate Finance (NSW) Pty Limited
GPO Box 5446
SYDNEY NSW 2001
Telephone: +61 2 8346 6000   Fax: +61 2 8346 6099

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

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: (03) 9613 7366   Fax: (03) 9613 6399
Internet: http://www.fos.org.au

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

Info line: 1 300 300 630
Email: infoline@asic.gov.au
Internet: http://www.asic.gov.au/asic/asic.nsf

### Contact details

You may contact us using the details located below.

PKF Corporate Finance (NSW) Pty Limited
Level 8
1 O'Connell Street
SYDNEY NSW 2000

GPO Box 5446
SYDNEY NSW 2001
Telephone: +61 2 8346 6000   Fax: +61 2 8346 6099

# PROXY FORM

**FRESHTEL HOLDINGS LIMITED**
**ACN 111 460 121**

## GENERAL MEETING

I/We ______________________

of: ______________________

being a Shareholder entitled to attend and vote at the Meeting, hereby appoint:

Name: ______________________

**OR:** ☐ the Chair of the Meeting as my/our proxy.

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 11:00 AM (AEDT), on 13 March 2017 at Hall Chadwick Offices, No 2 Park St, Sydney 2000, and at any adjournment thereof.

**AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS**

**Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolutions 9, 10 and 11 (except where I/we have indicated a different voting intention below) even though Resolutions 9, 10 and 11 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.**

**CHAIR'S VOTING INTENTION IN RELATION TO UNDIRECTED PROXIES**

**The Chair intends to vote undirected proxies in favour of all Resolutions. In exceptional circumstances the Chair may change his/her voting intention on any Resolution. In the event this occurs an ASX announcement will be made immediately disclosing the reasons for the change.**

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| **Voting on business of the Meeting** | | **FOR** | **AGAINST** | **ABSTAIN** |
|---|---|---|---|---|
| Resolution 1 | Change to Nature and Scale of Activities | ☐ | ☐ | ☐ |
| Resolution 2 | Consolidation of Capital | ☐ | ☐ | ☐ |
| Resolution 3 | Issue of Consideration Shares | ☐ | ☐ | ☐ |
| Resolution 4 | Capital Raising pursuant to a Prospectus | ☐ | ☐ | ☐ |
| Resolution 5 | Election of Director – Andrew Roberts | ☐ | ☐ | ☐ |
| Resolution 6 | Election of Director – Wayne Wilson | ☐ | ☐ | ☐ |
| Resolution 7 | Change of Company Name | ☐ | ☐ | ☐ |
| Resolution 8 | Issue of Facilitator Shares | ☐ | ☐ | ☐ |
| Resolution 9 | Issue of Director Shares – Dr Ken Carr | ☐ | ☐ | ☐ |
| Resolution 10 | Issue of Director Shares – Mr Peter Buttery | ☐ | ☐ | ☐ |
| Resolution 11 | Issue of Director Shares – Mr Mithila Nath Ranawake | ☐ | ☐ | ☐ |

**Please note**: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**If two proxies are being appointed, the proportion of voting rights this proxy represents is:** ________ **%**

**Signature of Shareholder(s):**

| **Individual or Shareholder 1** | **Shareholder 2** | **Shareholder 3** |
|---|---|---|
| | | |
| Sole Director/Company Secretary | Director | Director/Company Secretary |

**Date:** ______________________

**Contact name:** ______________________ **Contact ph (daytime):** ______________________

**E-mail address:** ______________________ **Consent for contact by e-mail in relation to this Proxy Form:** **YES** ☐ **NO** ☐

## Instructions for completing Proxy Form

1. (**Appointing a proxy**): A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.

2. (**Direction to vote**): A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.

3. (**Signing instructions**):

   - (**Individual**): Where the holding is in one name, the Shareholder must sign.

   - (**Joint holding**): Where the holding is in more than one name, all of the Shareholders should sign.

   - (**Power of attorney**): If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.

   - (**Companies**): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.

4. (**Attending the Meeting**): Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.

5. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

   (a) post to Freshtel Holdings Limited, PO Box 27, Balnarring, VIC 3926; or

   (b) email to the Company at info@freshtelholdings.com.au,

   so that it is received not less than 48 hours prior to commencement of the Meeting.

   **Proxy Forms received later than this time will be invalid.**