PPB Advisory

Emefcy Group Limited

Independent Expert's Report and Financial Services Guide

Proposed Acquisition and Share Placement

6 June 2017

PART 1: FINANCIAL SERVICES GUIDE

PPB Corporate Finance Pty Ltd

PPB Corporate Finance Pty Ltd (ABN 13 130 176 911) ('PPB') is the licensed corporate finance business of PPB Advisory. PPB is a wholly owned subsidiary of PPB Pty Ltd, trading as PPB Advisory (ABN 67 972 164 718). PPB Advisory provides strategic and financial advisory services to a wide range of clients. PPB's contact details are as set out on our letterhead.

Engagement

PPB has been engaged by the directors ('Directors') of Emefcy Group Limited ('Emefcy' or 'the Company') to prepare this independent expert's report ('IER' or 'Report'). This IER will accompany the Notice of Meeting and Explanatory Memorandum provided by the directors of Emefcy ('Directors') to the shareholders of the Company ('Shareholders') to assist them in deciding whether to approve the ('Proposed Acquisition') and proposed share placement ('Share Placement').

Financial Services Guide

This Financial Services Guide ('FSG') has been prepared in accordance with the Corporations Act, 2001 (Cth). It provides important information to help retail investors make decisions regarding the general financial product advice included in the IER; the services we offer; information about PPB; the dispute resolution process and our remuneration.

PPB holds an Australian Financial Services Licence (No. 344626) ('Licence'). PPB is required to issue to you, as a retail client, a FSG in connection with our IER.

PPB is licensed to provide financial services

The Licence authorises PPB to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

You have not engaged PPB directly, but have received this IER because it accompanies the Notice of Meeting and Explanatory Memorandum you have received from the Directors. Our IER includes details of our engagement and identifies the party who has engaged us.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in this IER.

General financial product advice

Our IER provides general financial product advice only, and does not provide any personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to voting on the Proposed Transaction, as described in the Notice of Meeting and Explanatory Memorandum, may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Remuneration

PPB will receive a fee of approximately AUD80,000 (plus GST and disbursements) based on commercial rates. PPB will not receive any fee contingent upon the outcome of the Proposed Transaction and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

All of our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of PPB or PPB Advisory but any bonuses are not directly connected with individual assignments and, in particular, are not directly related to the engagement for which our IER was provided.

PPB does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that PPB is licensed to provide.

Independence

PPB is not aware of any actual or potential matter or circumstance that would preclude it from preparing this IER on the grounds of independence under regulatory or professional requirements. In particular, PPB, has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and the Australian Securities and Investments Commission.

Complaints resolution

PPB is required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, PPB Corporate Finance Pty Ltd, GPO Box 5151, Sydney NSW 2001.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ('FOS').

FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. PPB is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Email: info@fos.org.au
Web: www.fos.org.au

PART 2: INDEPENDENT EXPERT'S REPORT

6 June 2017

The Directors
Emefcy Group Limited
Suite 1, 1233 High Street
ARMADALE VIC 3143

Dear Directors

Independent Expert's Report and Financial Services Guide

1. Introduction

PPB Corporate Finance Pty Ltd ('PPB') has been engaged by the directors[1] ('Directors') of Emefcy Group Limited ('Emefcy' or 'the Company') to prepare an independent expert's report ('IER' or 'Report') for the shareholders of Emefcy ('Shareholders') in relation to the proposed acquisition of RWL Water LLC ('RWL') ('Proposed Acquisition') and a proposed share placement ('Share Placement'). The Proposed Acquisition and Share Placement are inter-conditional.

The Proposed Acquisition and Share Placement are described below and are referred to collectively as the Proposed Transactions.

Our opinions expressed in this Report are as at 31 March 2017 ('Valuation Date').

2. The Proposed Acquisition and Share Placement

Emefcy signed a term sheet ('Term Sheet') on 28 November 2016 and non-binding letters of intent ('LOIs') on 29 March 2017 and 4 May 2017 with RSL Investments Corporation ('RSL'), the immediate holding company of RWL. Emefcy announced its intention to undertake the Proposed Transactions to the Australian Securities Exchange ('ASX') on 5 May 2017. The Company entered into the sale and purchase agreement on 26 May 2017 ('SPA') with RSL in relation to the Proposed Acquisition and a Private Placement Letter Agreement ('PPLA') with RSL in relation to the Share Placement. Under the terms of the SPA and PPLA:

- Emefcy proposes to acquire 100% of the limited liability company interests ('LLC Interests') of RWL for a consideration ('Consideration') comprising the issue of 100.5 million fully paid ordinary shares in Emefcy to RSL[2] on the completion date that is expected to be 3 July 2017.
- RSL has agreed to a Share Placement comprising the subscription of shares in Emefcy amounting to USD20 million[3], subject to completion of the Proposed Acquisition having occurred and other terms and conditions set out in the PPLA.

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[1] No Directors are not associated with the Proposed Transactions
[2] In addition to issuing the Consideration shares, Emefcy will pay USD10,000 of the completion cash consideration under the SPA in consideration for acquiring the LLC Interests (refer to the Explanatory Memorandum and Notice of Meeting for further details).
[3] At AUD/USD exchange rate of 0.85 equates to AUD23.5 million.

- The pricing of the Consideration and Share Placement will be based on a share price of AUD0.850 per share (USD0.648). The Consideration equates to approximately AUD85.4 million (USD65.2 million[4]).
- RSL will be restricted from selling, transferring or otherwise disposing of any Consideration shares for two years commencing from the completion date ('Lock-Up Period') (except in the specific circumstances described in the SPA or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18) under the SPA and the Lock-Up Agreement.
- The Proposed Acquisition and Share Placement are inter-conditional.

Further details in relation to the Proposed Acquisition and Share Placement are provided in Section 1 of our detailed Report that is attached and the Notice of Meeting and Explanatory Memorandum that have been prepared for Shareholders by the Directors of Emefcy.

3. Purpose of this Report

Section 606 of the Corporations Act (Cth) 2001 ('Act') prohibits a person from acquiring a relevant interest in a public company where that person already has a voting right in excess of 20% and their voting right would increase further. Section 611, Item 7 ('Section 611') provides that an acquisition will be exempted from the prohibition under section 606 if the acquisition is approved by shareholders at a general meeting. As set out in Section 2, the Proposed Acquisition and Share Placement may result in RSL acquiring a relevant interest of more than 20% of Emefcy's issued capital, on a fully diluted basis[5]:

- of approximately 23.3% after the Proposed Acquisition
- an additional interest of 7.2% after the Share Placement and 30.5% in total.

These issues of shares in Emefcy, to RSL, require the approval of the shareholders of Emefcy that are not associated with the Proposed Transactions ('Non-Associated Shareholders') in accordance with Section 611.

Emefcy will also have a relevant interest of more than 20% of Emefcy's issued capital during the Lock-Up Period. Under Section 608(3) of the Act, a relevant interest arises where a person has the power to control the disposal of securities (for example, as a result of the Lock-Up Agreement relating to the Proposed Transactions). Section 608(9) of the Act provides that a body corporate can have a relevant interest in its own securities.

An IER is not specifically required by the Act. However, to assist the Non-Associated Shareholders assess the Proposed Transactions, the Directors have appointed PPB to prepare an IER advising whether, in our opinion, the Proposed Acquisition and Share Placement are fair and reasonable to the Non-Associated Shareholders.

This Report sets out PPB's opinion on the Proposed Transactions and is to be included in the Notice of Meeting and Explanatory Memorandum to be sent to Shareholders and has been prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Acquisition and Share Placement. PPB and PPB Advisory, including any members or employees thereof, are not responsible to any person, other than the Non-Associated Shareholders and Emefcy, in respect of this Report, including for any errors or omission however caused.

This Report should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting and Explanatory Memorandum prepared by the Directors.

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[4] AUD:USD exchange rate of AUD0.76

[5] Based on the Company's current ordinary shares on issue (approximately 257 million), the Consideration shares will represent approximately 39.1% of the Company's ordinary shares on issue, or 36.2%% on a fully diluted basis (assuming the exercise of all options but excluding the issue of 22.5 million ordinary shares that are likely to be issued to the former shareholders of Emefcy later this year)

4. Basis of evaluation

We have prepared this Report having regard to the Australian Securities and Investments Commission ('ASIC') Regulatory Guides ('RG'), especially RG 111 *Contents of experts reports* ('RG 111') and RG 112 *Independence of experts* ('RG 112') and RG 74 *Acquisitions approved by members* ('RG 74').

RG 74 indicates that the IER should be prepared in accordance with the guidance provided in RG 111 that states that an expert should focus on the purpose and outcome of the transaction rather than the legal mechanism to affect the transaction. RG 111 provides guidance in relation to a range of transactions.

In considering the Proposed Acquisition and Share Placement (collectively referred to as the Proposed Transactions) we have had regard to the economic substance of the Proposed Transactions and that the Proposed Acquisition and Share Placement are inter-conditional. As such, the Proposed Acquisition and Share Placement must be considered together as it is not possible for one to occur without the other.

To assess whether the Proposed Acquisition and Share Placement are fair and reasonable to Non-Associated Shareholders, we have adopted the tests of whether the Proposed Acquisition and Share Placement are either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in RG 111.

ASIC's interpretation of RG 111 suggests that we consider the Proposed Transactions as follows:

- The Proposed Transactions are fair, if the value of a share in the entity before the Proposed Transactions (on a control basis) is equal to or less than the value of a share in the entity following the Proposed Transactions (on a minority interest basis).
- The Proposed Transactions are reasonable, if they are fair, or, despite not being fair, after considering other significant factors, there are sufficient reasons for Shareholders to vote for the Proposed Transactions. This involves considering the likely advantages and disadvantages of approving the Proposed Transactions and considering the position of a Shareholder if the Proposed Transactions are not approved.

A Non-Associated Shareholder may consider alternative approaches to assessing the merits of the Proposed Transactions.

The analysis as explained above requires that the Proposed Transactions be evaluated as if they were a takeover of Emefcy by RSL. However:

- no element of the Proposed Transactions will result in Non-Associated Shareholders being provided any consideration by Emefcy
- Emefcy will be merging its operations with RWL and issuing shares to RSL as Consideration
- following the Proposed Transactions, Shareholders of Emefcy will continue to hold the same number of shares in Emefcy, being the combined group ('Combined Group'), although the value and trading price of the shares is likely to be impacted by the Proposed Transactions.

We have also considered whether RWL will be paying any premium for control.

Further details of the basis of evaluation are set out in Section 2.3 of our detailed Report.

Our IER is provided to Shareholders for the above purposes only, and should not be used or relied upon for any other purpose, nor should it be disclosed to or discussed with any other party without our prior written consent (except relevant statutory authorities or your professional advisors, acting in that capacity, provided they accept that we assume no responsibility or liability whatsoever to them in respect of the contents).

Our Report is subject to the limitations and disclosures set out in Section 12 of the Report.

5. Summary and conclusion

Based on our analysis, in our opinion, in the absence of a superior offer, the Proposed Transactions are fair and reasonable to the Non-Associated Shareholders.

We have assessed whether the Proposed Transactions are fair by comparing the fair market value of a share in Emefcy before the Proposed Transactions (on a control basis) to the fair market value of a share in Emefcy after the Proposed Transactions (on a minority interest basis).

Although the Proposed Transactions are fair, there are also compelling reasons for the Non-Associated Shareholders to approve the Proposed Transactions as they will be clearly better off if the Proposed Transactions proceed.

In undertaking our assessment of the value of Emefcy and the Combined Group, we acknowledge the significant uncertainty that exists because both Emefcy and RWL are in the early stages of development and currently generating losses, products are still being commercialised and high growth in sales is expected over the forthcoming years. For these reasons, the valuation ranges are relatively wide.

The fair market value range of a share in Emefcy after the Proposed Transactions is within our valuation range of a share in Emefcy before the Proposed Transactions. We note that the subscription price for the Consideration and Share Placement is based on AUD0.850[6] per share, which further supports our fairness opinion.

Because of the uncertainty inherent in the valuation analysis that forms the fairness assessment, the assessment of the reasonableness factors of the Proposed Transactions is critical. In assessing the reasonableness of the Proposed Transactions, we have considered the benefits and disadvantages to the Non-Associated Shareholders in the context of Emefcy's current operations and the prospects offered by RWL.

As is typical for smaller companies with emerging technologies, Emefcy has an ongoing need for funding to support the development and commercialisation of its products. Its current cash reserves of approximately USD20.3 million, extend to around August 2018 and without funding beyond this date, and in the absence of the Share Placement, development and commercialisation of its products will stall. The Proposed Transactions will extend Emefcy's cash reach and provide it with the opportunity to complete commercialisation and extend its markets globally.

However, the Proposed Transactions will result in RSL having a significant equity interest in the Combined Group, which will result in the dilution of the current interests of the Non-Associated Shareholders and will allow RSL to exercise significant influence over the Company without a control premium being paid. Further, the potential for a control transaction to emerge in the future will be reduced given the size of RSL's interest unless RSL agrees to the offer.

We have assessed that the Non-Associated Shareholders will be better off if the Proposed Transactions are approved and therefore, in our view, the Proposed Transactions are reasonable.

Our opinion should be read in conjunction with the remainder of this letter and our detailed Report that is attached.

The Proposed Transactions are fair

We have assessed whether the Proposed Transactions are fair by comparing our valuation of a share in Emefcy before the Proposed Transactions, on a controlling basis, to the value of a share in Emefcy after the Proposed Transactions, on a minority interest basis.

In Section 11 of our Report, we set out our fairness assessment.

[6] At 31 March 2017 for the purposes of the IER

Our fairness assessment indicates that the fair market value of an issued share after the Proposed Transactions, on a pro forma fully diluted basis ('Pro forma Number of Shares'), is within the fair market value of an issued share before the Proposed Transactions.

Significant uncertainty exists in our valuation assessment, because Emefcy is in its the early stage of development and its value is likely to shift, perhaps materially, depending on the outcome of product development and commercialisation. For this reason, our valuation range is relatively wide.

In addition, the Company has only recently entered the China market and this represents a significant opportunity. The Company been regularly making ASX announcements on its China strategy, partnerships and alliances. These may, to some extent, be reflected in the current share trading price of Emefcy.

Shareholders will continue to hold their shares by virtue of the Proposed Transactions. However, Shareholders interests, excluding RSL, will be diluted from 100% to 69.5% of the total issued shares of the Company, on a fully diluted basis.

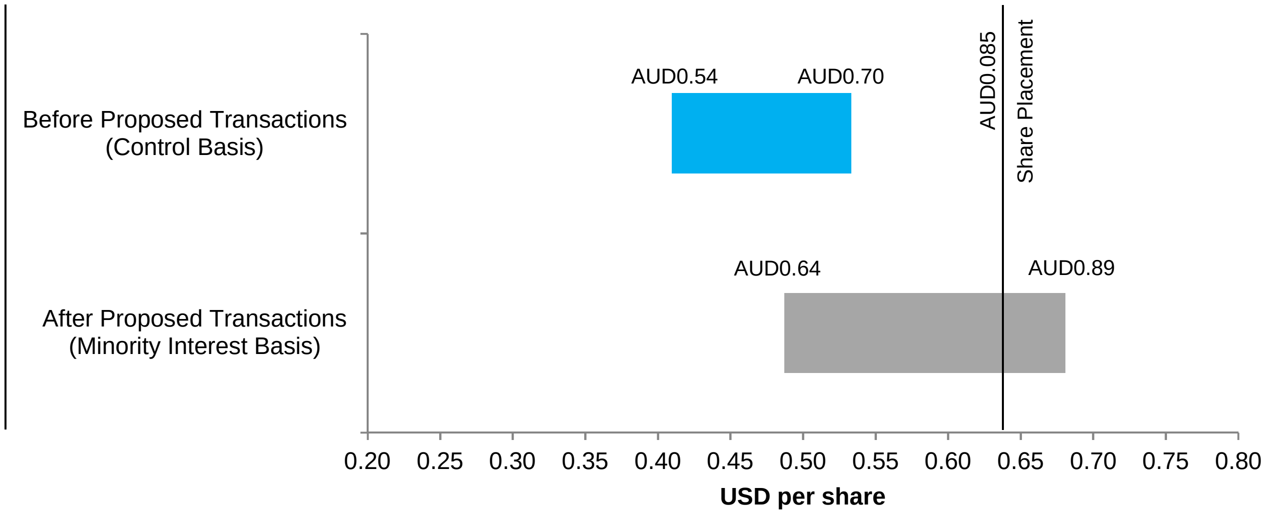
We have assessed the fair market value of an issued share in Emefcy:

- before the Proposed Transactions, on a control basis, to be in the range of USD0.410 (41.0 cents)/AUD0.537 (53.7 cents) to USD0.533 (53.3 cents)/AUD0.699 (69.9 cents)
- after the Proposed Transactions, on a minority interest and fully diluted basis, to be in the range of USD0.487 (48.7 cents)/AUD0.638 (63.8 cents) to USD0.681 (68.1 cents)/AUD0.892 (89.2 cents).

Comparison of value before the Proposed Transactions is on a control basis and after the Proposed Transactions is on a minority interest basis.

A summary of our fairness assessment is set out Section 11

Figure 1: Fairness summary – Proposed Transactions



Source: PPB Analysis
The pricing of the Consideration and Share Placement will be based on a share price of AUD0.850 per share (USD0.648).

Our assessed fair market value of an issued share after the Proposed Transactions is within the range of the fair market value of an issued share before the Proposed Transactions and the issue price for the Share Placement of USD0.648[7] is within our range of values. Therefore, we have determined that the Proposed Transactions are fair to Non-Associated Shareholders, according to RG 111.

[7] At 31 March 2017, AUD0.850 converted at AUD:USD 0.76

RG 111 states that the Proposed Transactions should be assessed on the basis that Emefcy is subject to a change of control transaction. This reflects the possibility that Shareholders, in approving the Proposed Transactions, may give up the opportunity to realise a control premium.

Our assessment involves a comparison of the underlying value with the 'consideration' to be received by Shareholders, where that consideration is deemed to be shares in Emefcy after the Proposed Transactions. For the purposes of the comparison, we have valued the shares after the Proposed Transactions on a minority interest basis[8] (trading value) and compared it to the value of the shares before the Proposed Transactions on a control basis. We acknowledge that the level of trading liquidity in Emefcy shares and market conditions relevant to Emefcy may prevent Emefcy shares from trading in our estimated valuation range.

We have applied a control premium of 30%[9] in our valuation analysis, however a control premium effectively represents the outcome of pricing decisions in change of control transactions. The trading price of Emefcy's shares on the ASX will not incorporate a control premium, in the absence of a takeover offer.

We have assessed the value of the shares after the Proposed Transactions using the market approach, based on a revenue multiple. We have not included the value of potential synergies arising from the acquisition of RWL. RG 111.11 states that any special value of the 'target' to a particular 'bidder' (eg synergies that are not available to other bidders) should not be taken into account.

We have taken the dilution effects of exercising outstanding options that are currently in the money and the respective cash impact, into account in our calculations.

The issue price of the Share Placement is at AUD0.850 (USD0.648) figure 1, above.

Although the trading in the Emefcy shares is considered liquid, the issue of shares at market price before the announcement date suggests that no control premium has been offered by RWL.

The Lock-Up, that forms part of the Proposed Transactions, gives Emefcy a relevant interest of 23.3% of the shares on issue after the Proposed Transactions. The relevant interest is for a period of two years after completion of the Proposed Transactions and relates only to the trading of the shares and not any other rights attached to the shares including the voting rights. As such, we consider that the impact on Non-Associated Shareholders is not material.

The Proposed Transactions are reasonable

The Proposed Transactions are reasonable if they are fair. However, it can also be reasonable, even if it was not fair, if there are sufficient reasons for Shareholders to accept the Proposed Transactions, in the absence of a superior offer being tabled.

There are compelling reasons for Non-Associated Shareholders to approve the Proposed Transactions. Primarily, the Proposed Transactions provide certainty over funding arrangements to support Emefcy's strategy and growth as well as providing a much sought after cornerstone investor which will send a strong signal to the market and create stability for the future of the Company.

Accordingly, we have assessed the Proposed Transactions as reasonable after consideration of the following key factors:

Advantages

Cash injection

The Share Placement will provide the Company with a cash injection of USD20 million to use for fund product development and commercialisation and revenue growth.

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[8] The discount applied is the inverse of the control premium commonly paid in takeovers. We have assessed control premiums to be in the range of 25% to 35%.
[9] Based on premiums for control for recent transactions calculated by PPB, refer Appendix F.

Cornerstone investor

As a result of the Proposed Transactions, Mr Lauder (through RSL) will control 30.5% of the issued shares of the Combined Group. Mr Lauder's interests will become aligned with the Company's and he will have a significant incentive to ensure the long-term success of the Combined Group. Mr Lauder has already invested USD147.9 million in RWL to date and has further significant financial capacity to support the Combined Group. Cornerstone investors provide stability in meeting future funding requirements and provide an important signal to the market. Mr Lauder, a well-known individual globally, will endorse Emefcy's strategy to the market.

This is an important consideration for Non-Associated Shareholders, as committed cornerstone investors are not readily available to emerging companies and are highly sought after.

Increased scale and diversification

The Proposed Transactions present significant opportunity to strategically expand and leverage the Company's existing wastewater treatment business and access a greater diversity of products and services.

The Combined Group will have the scale and financial strength to accelerate Emefcy's growth.

Access to engineering expertise

RWL has the engineering expertise for design, production, procurement and deploying scalable water treatment solutions that, in particular, incorporate adapted shipping containers. This will enable the Combined Group to offer its strategic distribution partners a diverse range of solutions, including easy-to-ship-and-install modular solutions, packaged or kitted plants or fully containerised plug-and-play plants.

These solutions are scalable and will offer the flexibility to meet varying requirements for waste water treatment in remote locations, thereby increasing the Combined Group's ability to capture additional market share in jurisdictions with significant market opportunity.

Global presence

The Combined Group will have staff of more than 350 located in several countries. This is a significant increase from Emefcy's current staff complement of 50. Emefcy will be able to offer its customers full waste recycling services, globally. Staff will also be able to cross-sell and up-sell through the Company's existing customers and RWL's existing customers.

Focus of management

Management will be able to focus on the strategic plans of the Company rather than continually seeking to raise capital to fund research and development. Approval of the Proposed Transactions will ensure that funding matters will not require intensive management focus.

Experienced management team

RWL has an experienced management team that will add complimentary skills and depth to Emefcy's management team. RWL management have the experience in building water treatment systems and processes.

Market reputation

RWL has been operating for more than 15 years and has successfully delivered water treatment solutions in multiple locations and generated approximately USD61 million in revenue during FY16.

Continue as a Shareholder

Shareholders will continue to hold their shares in Emefcy.

Cost synergies with the acquisition of RWL

The Directors believe potential synergies, that have not yet been quantified, will be achieved in the medium to long term following the acquisition of RWL, mainly as a result of the increase in scale and improved integration/efficiency.

Support of Emefcy's major Shareholders

Emefcy's significant Shareholders, holding 33% interest have indicated their support for the Proposed Transactions.

Recommendation of Directors

In the Explanatory Memorandum, the Directors state that they recommend the Proposed Transactions.

Alternative options

The Directors have advised that the Proposed Transactions are the only options currently available to Emefcy. We have been advised that there are no other offers or transactions that the Directors have considered or are considering.

Disadvantages

RSL will be acquiring a significant interest without paying a control premium

RSL will 'acquire' 30.5% of the issued shares of the Combined Group. The issue prices of the shares under the Proposed Acquisition and the Share Placement are based on USD0.648 (AUD0.850) per share This is the same as the closing price per share as at 31 March 2017. Therefore, RSL is not paying a premium for control.

It is common that acquirers of controlling interests in a business should pay a premium over the value implied by the trading price of a share, to reflect their ability to obtain control over the targets strategy and operations, as well as extract synergies from the integration. However, the level of premium observed in takeovers varies and depends largely on the circumstances of the target, competitive tension in the sale process and the level of synergies available. Observations from transaction evidence indicates that these premiums are typically between 25% and 35%[10] (refer Appendix F for further details).

It is not uncommon for transactions involving emerging companies to be completed at a discount, particularly where the subject company is still in its growth phase and reporting losses.

Dilution

Non-Associated Shareholders' interests will be diluted from 100% to 69.5% after the Proposed Transactions, on a fully diluted basis, as RSL may have an interest of up to:

- 23.3% of the issued shares after the Proposed Acquisition
- 7.2% of the issued shares after the Share Placement

The Proposed Transactions will dilute Non-Associated Shareholder's' interests in the Company, which diminishes their ability to influence the strategic direction of the Company, including acceptance or rejection of future takeover or merger proposals.

As a result of the Proposed Transactions, RSL will hold a blocking stake which potentially diminishes the prospects of Non-Associated Shareholders receiving an offer for their shares in Emefcy in the future.

Significant influence by RSL

RSL may hold up to 30.5% of the total issued shares in the Company and may be in a position to influence the decisions made by the Company, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters requiring Shareholder approval including matters pertaining to a potential change of control in the Company.

[10] Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F

Change in operating activities

The nature of the operating activities of Emefcy will change materially. Shareholders that sought to invest in the equity of Emefcy due to its specific risk profile and exposures may need to re-evaluate their investment in Emefcy due to the changes in exposures presented by Emefcy after the Proposed Transactions.

Less attractive takeover target

RSL's interest in the Company of 30.5% is likely to mean that its support for any proposal to acquire the Combined Group will be important for that proposal to be successful. It is, therefore, possible that RSL, as a substantial shareholder in the Combined Group, may be perceived by the market as reducing the likelihood of a takeover of the Combined Group. This may potentially cause the shares to trade at a discount to the value at which they would trade if RSL did not hold its interest in the Company.

Diversion of management resources from core operations

Managements' focus may possibly be directed towards the implementation of the Proposed Transactions and away from the day to day operations of Emefcy.

In addition, the level of business activity in the Combined Group following the Proposed Transactions may stretch existing management resources, which may delay realisation of revenue and cost synergies.

No alternatives

If the Proposed Acquisition is not approved, the Share Placement will not proceed and there is a significant risk that the Company may be unable to source replacement funding for the USD20 million.

The current cash burn of the Company is approximately USD1.2 million per month, which means that the existing funding will last approximately 17 months (ie. 31 August 2018).

If the Proposed Transactions are not approved, the share price of Emefcy may fall below the current share price of AUD0.850 per share on 31 March 2017.

RWL's liabilities

On completion, the liabilities of RWL will become liabilities of the Combined Group, including legal, tax, environmental and regulatory liabilities for which the Company may not be indemnified (or adequately indemnified).

The SPA contains a number of representations, warranties and indemnities in favour of the Company. While the Company can bring a claim against the RSL based on indemnities and warranties given in favour of the Company, the maximum recourse the Company can have is limited to the Consideration. Because the Company's remedy for any breach of general business warranties in respect of RWL will be limited to a reduction in the number of Holdback shares it will be required to issue, the Company will not receive any cash amounts from the RSL to cover any liabilities incurred as a result of the Proposed Transactions.

Pricing of the Share Placement

Based on an issue price of the Share Placement of AUD0.850 per share[11], there is no discount to the closing share price of AUD0.850[12] (USD0.648) at Valuation Date. The issue price of the Share Placement represents a discount of 5% and a premium of 33% (average premium 11%) to our assessed value of Emefcy after the Proposed Transactions.

Risks associated with the Proposed Transactions

There are a number of risk factors associated with the Proposed Transactions and some of those risk factors are outlined in Section 4.3 of the Explanatory Memorandum. If the Proposed Transactions proceed, Shareholders will become exposed to additional risks specific to the Combined Group.

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[11] The issue price of USD0.648 per share is based on the implied transaction equity value and AUD0.850 issue price as defined in the Explanatory Memorandum.
[12] USD0.648 based on an exchange rate of AUD:USD of 0.76.

6. Other factors

If the Proposed Transactions are not approved:

- the share price of Emefcy may not rise from the current trading price because the anticipated benefits of the Proposed Transaction will not be available and currently no other acquisition opportunities.
- the Company will continue to focus on its strategy, however with RWL as a strategic alliance partner. On this basis, many of the advantages listed above would fall away.

The Directors have advised that the legal and professional adviser fees relating to the Proposed Transactions of approximately USD2.3 million to USD2.5 million will be borne by the Company. If the Proposed Transactions do not proceed, Shareholders will not benefit from any potential upside.

The Proposed Transactions are, in the view of the Directors, the most beneficial to Shareholders of the Company.

7. Note regarding forward-looking statements and forecast financial information

Certain statements in this IER may constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of Emefcy and RWL, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following:

- general economic conditions
- future movements and changes in interest rates and taxes
- impact of terrorism and other related acts on broader economic conditions
- emergence of competing technologies
- changes in laws, regulations or governmental policies or the interpretation of those laws, the impact of regulations on Emefcy and RWL in particular
- other factors as referenced in this IER.

8. Other matters

PPB has prepared the FSG in accordance with the Act. The FSG is set out in Part 1 of this document.

In forming our view on the Proposed Transactions, we have considered the interests of the Non-Associated Shareholders, as a whole. We have not considered the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications to individual Non-Associated Shareholders of the Proposed Transactions as their financial circumstances are unknown to us.

The decision of whether or not to accept the Proposed Transactions is a matter for each Shareholder to decide, based on their own views as to the value of Emefcy and their own expectations about future market conditions, the future performance of Emefcy, risk profile and investment strategy.

If Shareholders are in any doubt as to the action that they should take in relation to the Proposed Transactions, they should seek their own professional advice.

This letter should be read in the context of our full report that is attached.

Yours faithfully

PPB Corporate Finance Pty Ltd

Fiona Hansen
Authorised Representative
AR Number 246371

Campbell Jaski
Director

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All references to USD in this report are United States of American dollars unless stated otherwise.

All reference to AUD are Australian dollars unless stated otherwise.

1. Summary of the Proposed Transaction

1.1 The Proposed Transaction

Emefcy signed a term sheet ('Term Sheet') on 28 November 2016 and non-binding letter of intent ('LOIs') on 29 March 2017 and 4 May 2017 with RSL, the immediate holding company of RWL. Emefcy announced its intention to undertake the Proposed Transactions were announced to the Australian Securities Exchange ('ASX') on 5 May 2017. The Company entered into a sale and purchase agreement on 26 May 2017 ('SPA') with RSL in relation to the Proposed Acquisition and a Private Placement Letter Agreement ('PPLA') with RSL in relation to the Share Placement. Under the terms of the SPA and PPLA:

- Emefcy proposes to acquire 100% of the limited liability company interests ('LLC Interests') of RWL for a consideration ('Consideration') comprising the issue of 100.5 million fully paid ordinary shares in Emefcy to RSL[13] on the completion date that is expected to be 3 July 2017.
- RSL has agreed to a Share Placement comprising the subscription of shares in Emefcy amounting to USD20 million, subject to completion of the Proposed Acquisition having occurred and other terms and conditions set out in the PPLA.
- The pricing of the Consideration and Share Placement will be based on a share price of AUD0.850 per share (USD0.648). The Consideration equates to approximately AUD85.4 million (USD65.2 million[14]).
- RSL will be restricted from selling, transferring or otherwise disposing of any Consideration shares for two years commencing on the completion date (except in the specific circumstances described in the SPA or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18) under the SPA and the Lock-Up Agreement.
- The Proposed Acquisition and Share Placement are inter-conditional.

1.2 Impact on Shareholders

Table 1 summarises the impact on shareholdings before and after the Proposed Transactions.

Table 1: Impact on shareholdings before and after the Proposed Transactions

	Number of shares	% holding
Ordinary shares on issue	257,051,054	59.6%
Issued options	20,192,943	4.7%
Second Milestone shares	22,500,000	5.2%
Fully diluted shares before the Proposed Transactions	**299,743,997**	**69.5%**
Proposed Acquisition	100,500,000	23.3%
Share Placement	30,842,065	7.2%
Fully diluted shares after the Proposed Transactions	**431,086,062**	**100.0%**

Source: PPB analysis, Notice of Meeting

[13] In addition to issuing the Consideration shares, Emefcy will pay USD10,000 of the completion cash consideration under the SPA in consideration for acquiring the LLC Interests (refer to the Explanatory Memorandum and Notice of Meeting for further details).
[14] AUD:USD exchange rate of AUD0.76

1.3 Rationale for the Proposed Transaction

The Directors' rationale in pursuing the Proposed Transactions was based on the following factors:

- Opportunity for Emefcy to become a global leader for decentralised water and wastewater treatment solutions
- Opportunity to enhance Emefcy's existing presence in China
- Attractiveness of a long term and stable cornerstone investor, with international acclaim
- Opportunity to fast track the commercialisation of its technology with the acquisition of RWL, that is a complementary business in many respects
- Emefcy's technology will offer operational benefits to the Combined Group, such as - lower capital expenditure and lower operating costs via energy efficiency solution (requires 90% less energy) and less residual waste (sludge)
- Access to almost immediate funding provided by the cornerstone investor, RSL
- Combined Group's enhanced scale, platform, sales network, broad market reach and compelling differentiated product offering is likely to offer increased opportunities to drive growth initiatives
- Relatively minimal dilution to Non-Associated Shareholders.

The Directors believe that the Proposed Transactions are the best available option for Emefcy, at the current time, because it will create a sustainable capital structure and significantly enhances Emefcy's scale, geographic and service diversification through the acquisition of RWL.

1.4 Conditions precedent

The Proposed Transaction is subject to a number of conditions precedents including:

- preparation of an independent expert's report by an independent expert
- various regulatory approvals, consents or authorisations such as Foreign Investment Review Board ('FIRB'), ASIC and the ASX
- Shareholder approval of the Proposed Acquisition and the Share Placement
- the execution and delivery to the Company of the Lock-Up Agreement (described in Section 5.1 of the Explanatory Memorandum and Notice of Meeting) by the RSL.

Full details of all the conditions precedent are included in the Explanatory Memorandum and Notice of Meeting prepared by the directors, to which this Report forms part.

2. Scope of the report

2.1. Purpose and scope

The Directors have appointed PPB to prepare this Report to express an opinion as to whether the Proposed Transactions are fair and reasonable to Non-Associated Shareholders, as a whole and to provide reasons for that opinion.

This Report has been prepared at the request of, and for the benefit of, the Directors and the Non-Associated Shareholders, to assist the Directors in fulfilling their obligations to provide Non-Associated Shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transactions. It is to be used by the Non-Associated Shareholders to assist them decide whether to agree to the resolutions set out in the Explanatory Memorandum and Notice of Meeting.

This Report is to accompany the Explanatory Memorandum and Notice of Meeting to be sent to Shareholders.

Our IER has been prepared in accordance with APES 225 Valuation Services ('APES 225') issued by the Accounting Professional & Ethics Standards Board. As required under APES 225, we confirm that we are independent of the Directors of Emefcy, RWL and the major Shareholders of Emefcy.

2.2. Regulatory requirements

Although there is no requirement for an independent expert's report for the Proposed Transactions as a whole, pursuant to the Act, or the ASX Listing Rules, the Directors have engaged PPB to prepare an independent expert's report setting out whether, in our opinion, the Proposed Transactions are fair and reasonable to the Non-Associated Shareholders of Emefcy.

Corporations Act

The Proposed Transactions require the approval of the Non-Associated Shareholders in accordance with Item 7 of Section 611 of the Act.

Section 606 of the Act prohibits a person from acquiring a relevant interest in a public company where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has a voting power in excess of 20%, their voting power would increase further.

The Proposed Transactions will result in:

- RSL acquiring a relevant interest of more than 20% of Emefcy's issued capital
- acquisition by RSL of a relevant interest in more than 20% of Emefcy's issued capital by virtue of the Lock-Up Agreement.

Emefcy will also have a relevant interest of more than 20% of Emefcy's issued capital during the Lock-Up Period. Under Section 608(3) of the Act, a relevant interest arises where a person has the power to control the disposal of securities (for example, as a result of the Lock-Up Agreement relating to the Proposed Transactions). Section 608(9) of the Act provides that a body corporate can have a relevant interest in its own securities.

Accordingly, Emefcy is seeking Shareholder approval for the issue of shares as a result of the Proposed Transactions.

ASIC Regulatory Guides

ASIC Regulatory Guide RG 111 *Content of expert reports* and ASIC Regulatory Guide RG 74 *Acquisitions approved by members* ('RG 74') provide guidelines for an expert preparing an independent expert report. RG 112 *Independence of experts* deals with the independence of the expert.

We confirm that we are independent under the requirements of RG 112.

RG 111 provides guidance in relation to the content of independent expert's reports for a range of transactions. It notes that an expert should focus on the economic substance rather than the legal mechanism of the transaction. ASIC indicates that in a transaction where shareholders will be left with a diluted interest in an expanded entity and forego the possibility of receiving a control premium in the future, and where the transaction consists of shares being issued in exchange for vending in a business, the transaction should be analysed as if it were a scrip takeover bid.

In considering the Proposed Acquisition and the Share Placement, we have had regard to the economic substance of the Proposed Transactions, and that they are inter-conditional. As such, the series of transactions comprising the Proposed Transactions must be considered together as it is not possible for one to occur without the other.

To assess whether the Proposed Transactions are fair and reasonable to Non-Associated Shareholders, we have considered whether the Proposed Transactions are either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as provided by RG 111. In respect of takeover bids, RG 111 provides that:

- the criteria to analyse a control transaction should consider if the offer is 'fair' and if it is 'reasonable'. 'Fair and reasonable' is not regarded as a compound phrase
- an offer is considered to be 'fair' if the value of the consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made 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
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 recommends that we consider the Proposed Transactions as follows:

- the Proposed Transaction is fair, if the value of a share in the Company before the Proposed Transactions (on a control basis) is equal to or less than the value of a share in the Company after the Proposed Transactions (on a minority interest basis)
- the Proposed Transactions are reasonable if they are fair, or despite not being fair, after considering the other significant factors, there are sufficient reasons for Non-Associated Shareholders to vote for the Proposed Transactions in the absence of any alternative transaction.

2.3. Our approach

Although this IER is not required under the Act or under the ASX Listing Rules, we have followed the guidance of the relevant ASIC Regulatory Guides in the preparation of this Report.

Fairness

The approach set out in RG 111 recommends that the independent expert should assume that Non-Associated Shareholders are:

- 'selling' their shares in Emefcy
- 'receiving' new shares after the Proposed Transactions.

In 'selling' their shares, Non-Associated Shareholders are ceding control. Therefore, RG 111 recommends the valuation of the shares before the Proposed Transactions to be undertaken on a control basis. In the Non-Associated Shareholders receiving new shares after the Proposed Transactions, we are to assume that the Non-Associated Shareholders will no longer have control, and therefore have a minority interest in Emefcy. Consequently, the valuation of the shares after the Proposed Transactions is to be undertaken on a minority interest basis.

The approach of RG 111 recommends the Proposed Transactions be assessed as a takeover. However:

- no part of the Proposed Transactions will result in Non-Associated Shareholders being offered consideration
- the business operations of Emefcy will change in a material respect mainly the effect of a significant change to the scale of Emefcy's operations
- after the Proposed Transactions, Non-Associated Shareholders will still hold their shares in Emefcy, being the Combined Group of Emefcy and RWL's businesses, although the value and the likely trading price may change, as they will be impacted by the Proposed Transactions.

Whilst this approach is line with the guidance of ASIC, it may not necessarily be the only approach Non-Associated Shareholders should consider when assessing the Proposed Transactions.

We have also had regard to other potential approaches in assessing the merits of the Proposed Transactions, as part of our reasonableness assessment. This considers other factors relevant to the Proposed Transactions from the perspective of Non-Associated Shareholders.

We have also considered whether RWL will be paying any premium for control.

Reasonableness

In forming our opinion, we have considered the advantages and disadvantages to the Shareholders if the Proposed Transaction proceeds. ASIC suggests the factors that an expert should consider when determining whether an offer is reasonable, should include the following:

- substance of the Proposed Transactions
- rationale for the Proposed Transactions
- opportunity costs
- the alternative options available to the Company and the likelihood of those options occurring
- the entity's bargaining position
- whether there is selective treatment of any security holder, particularly the related party
- implications of the Proposed Transactions on leverage, complexity of the capital structure, share price and earnings per share
- alternatives available to Non-Associated Shareholders
- other factors related to capital structure and opportunities for growth of the Company
- consequences of not approving the Proposed Transactions.

2.4. Definition of value

Fair market value

The assessment of whether the Proposed Transaction is fair and reasonable to Shareholders, as a whole, necessarily involves determining the fair market value of the issued Shares of Emefcy.

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 judgment. 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. 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 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.

2.5. Valuation date

Our opinion expressed in this Report is as at 31 March 2017 ('Valuation Date').

2.6. Shareholders' decision

This IER has been prepared specifically for the Directors and the Shareholders. PPB and PPB Advisory, including any members or employees thereof, are not responsible to any person, other than the Non-Associated Shareholders and Emefcy, in respect of this report, including for any errors or omission however caused.

This Report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transactions to Shareholders, as a whole. We have not considered the potential impact of the Proposed Transactions on individual Shareholders.

Individual Shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transactions on individual Shareholders.

The decision of whether or not to approve the Proposed Transactions is a matter for Shareholders based on their own views as to the value of Emefcy and their expectations about future market conditions, Emefcy's performance, and risk profile and investment strategy.

If Shareholders are in doubt as to the action they should take in relation to the Proposed Transactions, they should seek their own professional advice.

PPB has prepared a FSG in accordance with the Act. The FSG is included as Part 1 of the Report.

2.7. Consent and other matters

This IER is to be read in conjunction with the Explanatory Memorandum and Notice of Meeting, and is prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transactions. This Report should not be used for any other purpose.

PPB's opinion is based on economic, market and other external conditions prevailing at the date of this Report. These conditions can change significantly over a relatively short period of time.

This Report has been based on financial and other information provided by Emefcy in relation to the Proposed Transactions. PPB has considered and relied upon this information.

PPB consents to the issue of this Report in its form and context and consents to its inclusion in the Explanatory Memorandum and Notice of Meeting.

Refer to Section 15 for limitations and disclosures regarding the basis of preparation and use of this Report.

2.8. Sources of information

In preparing this Report, we have relied on information as summarised in Appendix B, some of which was provided by Emefcy and some was obtained from public sources.

All documents relied on in support of our opinion are either referred to in the body of this Report, identified by way of footnote, or are referred to in the appendices to this Report.

We have had discussions with management of Emefcy ('Management') in relation to the Proposed Transactions, operations, financial position and outlook for Emefcy.

3. Overview of Emefcy

3.1. Brief history and overview of operations

Since 2008 Emefcy Ltd (Israel) has focused on developing energy-efficient waste water treatment solutions. Emefcy was established by two wastewater specialists (Eytan Levy and Ronen Shechter) and in December 2015 through a reverse takeover, the new parent entity, Emefcy Group Limited re-listed company on the ASX (ASX: EMC). The main office and manufacturing facilities are located in Israel.

Emefcy's products are designed to address the growing global need for clean water in rural villages, remote sites, municipal and potentially industrial plants. Emefcy offers the following product solutions:

- Turn-Key: complete end-to-end wastewater treatment solution, including integration, components, software and maintenance
- Module Array: the biological treatment part of the wastewater treatment process
- Water Reuse as a Service: deliver effluent water for reuse as per customer requirements, at a fixed cost.

Emefcy's technologies include the following:

- **Membrane Aerated Biofilm Reactors ('MABR'):** A modular, decentralised wastewater treatment process that uses just 10% of the energy used by conventional technologies. This technology comprises of a spirally-wound sleeve with an internal air-side spacer, through which low pressure air is blown, and an external water side spacer between wraps of the spiral. The spiral is submerged in a tank to which wastewater is fed continuously and effluent is discharged by overflow.

  This solution saves energy by eliminating the need to blow compressed air into the depth of the water for aeration, through the implementation of Emefcy's patented passive aeration process. MABR technology is ideal for small to medium wastewater treatment plants e.g. small municipalities, rural villages, hotels, resorts, casinos, campgrounds, mining camps, commercial centres and golf courses.
- **Electrogenic Bio Reactors ('EBR'):** An innovative solution based on microbial fuel cell technology. This technology enables direct electricity generation from wastewater as a means for wastewater treatment. Unlike conventional treatment methods, an electric current is produced, rather than energy being consumed during the process. The EBR system comprises of three components new to biological wastewater treatment:
  - anodes (in anaerobic conditions): where the bacterial oxidation of the organic matter occurs
  - cathodes (which are exposed to air): where the corresponding reduction reaction takes place
  - an electrical circuit that includes the external load, connecting the anodes to the cathodes.

Emefcy has won numerous awards for its innovation and technology, including a recent award from Global Water Intelligence (an industry research organisation) as a *2017 Breakthrough Water Technology Company of the Year.*

Emefcy's key business milestones are summarised in Table 2.

Table 2: Summary key milestones

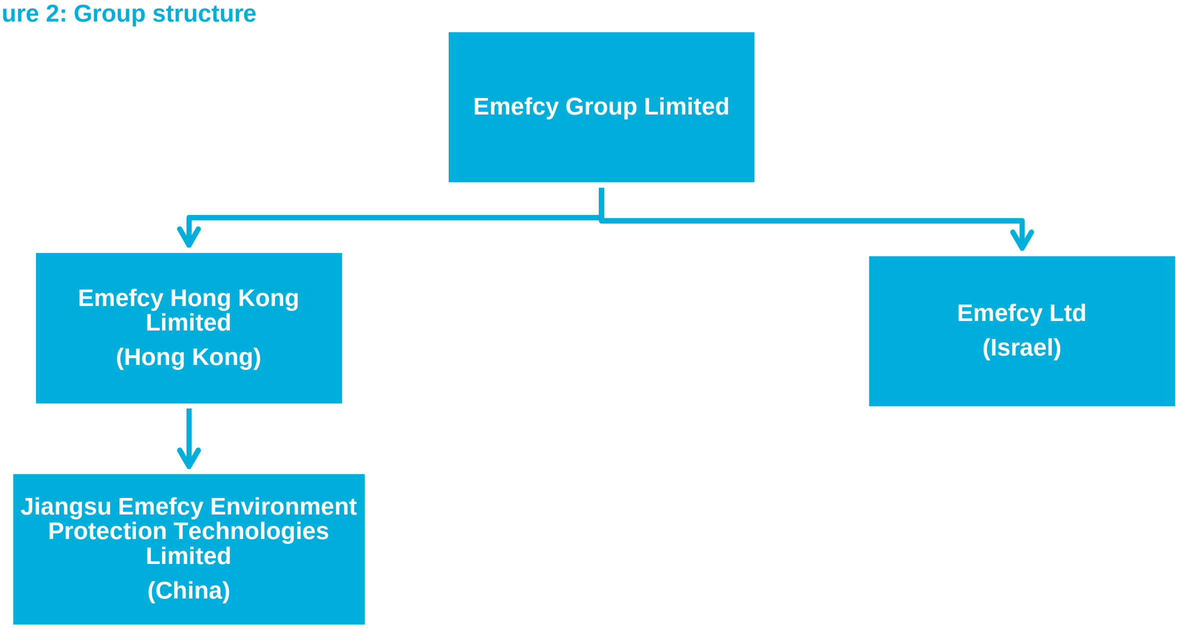
Date	Key milestones
22 Dec 2015	Notice announcing Emefcy (formerly Savcor Group Limited) being reinstated on the ASX to commence 23 Dec 2015
19 Jan 2016	Announcement of 2016 goals, long term vision and flagging China as a target market
09 Feb 2016	Update provided on first commercial scale municipal installation of patented Membrane Aerated Biofilm Reactor (MABR) in Jezreel, Israel
12 Apr 2016	Signing of first international contract in Saint Thomas, US Virgin Islands
22 Jun 2016	Signing of first African contract in Tigray, Ethiopia
11 Jul 2016	Announcement of China Strategy
15 Aug 2016	Signing of first China sales distribution partnership for MABR with Wuxi Municipal Design Institute
17 Aug 2016	Signing of three key agreements for a high volume Chinese production facility project in Jiangsu province
10 Oct 2016	Signing of strategic distribution and deployment partnership for MABR in China with Beijing Sinorichen Environmental Protection Corp Ltd
02 Nov 2016	Signing of strategic distribution and deployment partnership for MABR in China with Jiangsu Jinzi Environmental Technology Company Ltd
25 Nov 2016	Signing of strategic distribution and deployment partnership with China Gezhouba Group Investment Holding Co. Ltd in the Hubei, Hebei and Guangdong provinces
14 Dec 2016	First Chinese demonstration plant commissioned ahead of schedule
27 Jan 2017	Inauguration of Emefcy MABR wastewater treatment plant in US Virgin Islands
01 Feb 2017	Announcement of phased deployment of first MABR system in Stanford University's Codiga Resource Recovery Center in California, USA
13 Feb 2017	Signing of second Ethiopia contract for wastewater treatment and reuse for a large residential compound in Addis Ababa
30 Mar 2017	Emefcy Group and RWL Water announce Strategic Alliance
07 Apr 2017	Announcement of Emefcy and RWL Water to deploy MABR wastewater treatment system in Tianjin, China
05 May 2017	Announcement of intention to merge with RWL Water

Source: Emefcy group website, Management

3.2. Group Structure

The Emefcy group structure is summarised in Figure 2.

Figure 2: Group structure



Source: Management (all entities are 100% owned unless otherwise stated)

3.3. Business outlook

Emefcy made its first sales of the MABR product during FY16 and management anticipate the Company will continue to expand its operations and focus on growing its revenue primarily through sales of modular, packaged plant wastewater solutions into China and other strategic geographies including the Americas, Africa and the Middle East. The EBR product remains under development. In the event the Proposed Transaction does not proceed the Company will continue with its strategy (e.g. sales into China) and maintain RWL as a strategic alliance partner.

In the absence of the Proposed Transaction, it is unclear when the business would become cash flow positive.

3.4. Directors

Table 3 summarises the experience of the Directors of Emefcy as at 31 March 2017.

Table 3: Summary directors

Name	Position	Brief resume
Richard Irving	Executive Chairman	30 years' experience in operating and investor roles. Extensive experience and involvement in multiple start-ups, 2 Nasdaq IPOs and venture funds.
Eytan Levy	Co-founder, Managing Director and CEO	Prior to founding Emefcy, Eytan co-founded AqWise (a leader in advanced biological wastewater treatment). Founder and the first chairman of the Israeli wastewater treatment forum, a co-founder of Waterfronts – Israel Water Alliance and a member of the Israel Water Association.
Ross Haghighat	Non-Executive Director	Chairman, Triton Systems; Managing Partner, Newburyport Partners. Director at Aduro Biotech (NASDAQ: ADRO), Chairman of FRX Polymers and Founder & Chairman Triton Systems Group. Founder of 9 private and public companies.
Peter Marks	Non-Executive Director	30+ years experience in corporate finance, specialising in capital raisings (for listed and unlisted companies), underwriting, IPOs and venture capital transactions. Executive and Non-Executive Director of a number of listed entities on the ASX and AIM
Robert Wale	Non-Executive Director	Managing Director of BlueSand Consulting and 30+ years of executive level experience in the global water industry in multiple roles in Australia, USA & throughout the Asia-Pacific region.

Source: Emefcy website and Management

3.5. Capital structure

Emefcy had 257.05 million ordinary shares on issue at Valuation Date. Table 4 summarises Emefcy's ordinary shares and options on issue as at Valuation Date.

Table 4: Emefcy's ordinary shares and options on issue

Security	Note	Number of securities
Fully paid ordinary shares		238,442,786
Fully paid ordinary shares (Escrow)	1	18,608,268
Total issued ordinary shares		**257,051,054**
Unlisted options	Table 5	20,192,943
Second milestone shares	2	22,500,000
Total securities		**299,743,997**

Source: Management and PPB Advisory analysis

Notes to the above table:

1. Escrow shares: In late 2015, the owners of Emefcy Ltd (Israel) ('Emefcy Vendors') sold that company to Savcor Group Limited ('Savcor') in exchange for 65 million shares in Savcor, which changed its name to Emefcy and relisted on the ASX in December 2015. The initial Emefcy vendor shares have been subject to a range of escrow conditions, including mandatory ASX escrow of the Emefcy vendor shares held by the Emefcy founding executives and voluntary escrow of the other Emefcy vendors' shares. The agreement under which Emefcy was sold to Savcor (now Emefcy) provides for the issue of a further 45 million shares, and for the release from escrow of specified proportions of the initial Emefcy Vendor shares, upon the achievement of two commercial milestones.

   The first commercial milestone was satisfied last year, resulting in the issue of 22.5 million shares to the Emefcy vendors. Some of those shares are subject to voluntary escrow, and, if and when issued, some of the other 22.5 million shares to be issued if the second milestone is satisfied will also be subject to voluntary escrow. All escrow conditions relating to the Emefcy vendor shares will be released by 23 December 2017.
2. Second milestone shares: relate to the obligation for the Company to issue a further 22.5 million shares to Emefcy vendors upon the satisfaction of the second milestone ie. achieving cumulative USD2 million in sales within 24 months of the transaction completion date (18 December 2015). The directors are reasonably satisfied that this milestone will be achieved.

Table 5: Emefcy's options on issue

Unlisted options	Number of options
Savcor	650,000
Directors	7,500,000
Employees	3,487,946
Consultants	8,555,000
Total	**20,192,946**

Source: Management

Approximately 11% of these options are out of the money as at the Valuation Date.

3.6. Capital raisings

Table 6 summarises the capital raisings undertaken up to Valuation Date.

Table 6: Summary of capital raisings

Date		Capital raised USD million	Share price USD	% change of price from prior placement
30 November 2015	Prospectus	9.9	0.14	n/a
25 July 2016	Private placement	22.6	0.45	221%
15 May 2017 (current)	Private placement	20.0	0.63[15]	40%

Source: ASX announcements and PPB Advisory analysis

Comments on the above table:

- 30 November 2015: USD9.9 million raised, nil revenue forecasts provided.
- 25 July 2016: USD22.6 million based on opportunities to expand the business into China.

[15] USD0.63, calculated based on a share price of AUD0.85 and a AUD/USD exchange rate of 0.74.

3.7. Top 10 Shareholders

Table 7 summarises the top ten ordinary Shareholders of Emefcy as at 19 April 2017.

Table 7: Top 10 Shareholders

Rank	Shareholder	Number of Shares	% of total
1	Irving, Richard	28,944,080	11.26%
2	Hains, Phillip as trustee for Employee Equity Administration	17,410,467	6.77%
3	Plan B Ventures LLC	16,018,178	6.23%
4	Liberman, Boris & Helen	11,644,393	4.53%
5	Eytan Levy	9,267,810	3.61%
6	Ronen Shechter	9,267,810	3.61%
7	Jing, Hao	7,890,000	3.07%
8	UBS Securities - Australia	6,338,779	2.47%
9	Israel Cleantech Ventures	5,566,801	2.17%
10	Energy Technology Ventures LLC	5,508,712	2.14%
	Subtotal	**117,857,030**	**45.85%**
	Other Shareholders	139,194,020	54.15%
	Total Shares on issue	**257,051,050**	**100.00%**

Note: The above table only uses the legal ownership and not beneficial ownership.

Source: Market Eye Pty Ltd – Top 50 share register analysis as at 19 April 2017

We also note that Management and the Directors own 20.06% of the issued shares.

3.8. Share price performance

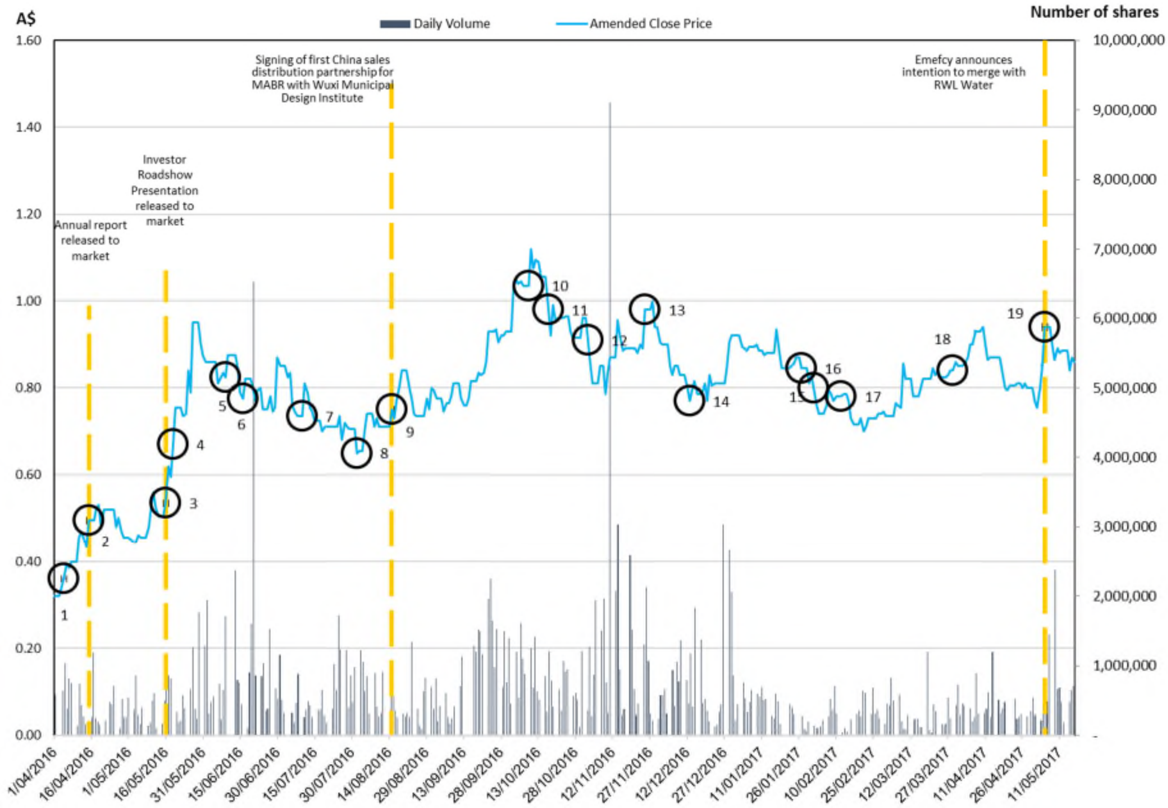
In assessing Emefcy's share price performance over the one year period to 31 March 2017, we have:

- analysed the share price and volumes traded
- compared the share price movement to the S&P/ASX 200 Index
- assessed the VWAP and trading liquidity of Emefcy's shares

Figure 3 illustrates the movements in the share price and volumes traded between 1 April 2016 and 31 March 2017 (a 12-month period). Emefcy's closing share price was in the range of AUD0.32 to AUD1.12 during this period.

Refer to Figure 3 and Table 8 for an overview of share price and volume movements and ASX announcements.

Figure 3: Emefcy's historical share performance



Source: S&P Capital IQ

The above chart illustrates the upward trend of the share price over the period. Trading has been characterised by high average daily volumes, with intermittent spikes driven by company announcements.

The Company's share price closed at AUD0.850 on 31 March 2017.

The key events impacting the share price are as follows:

Table 8: Key events related to historical share performance

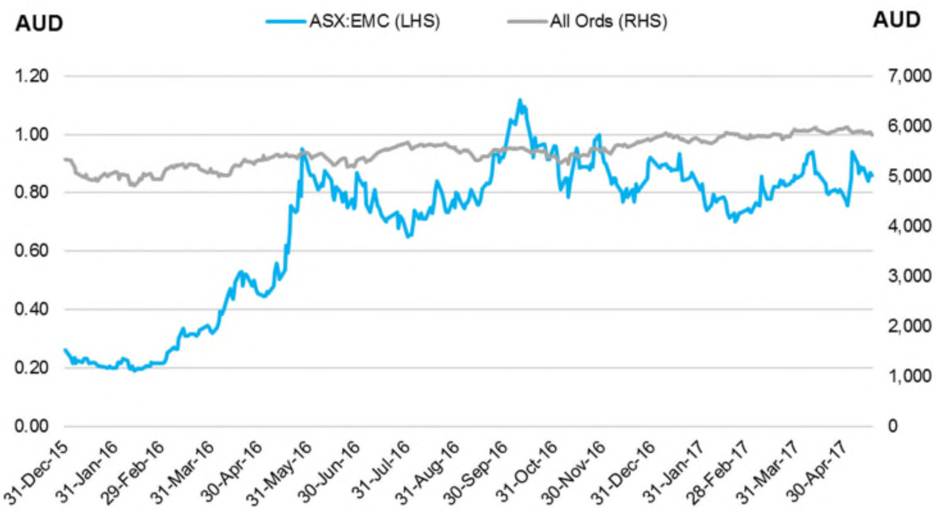
Date	Volume traded	Price change	Title of ASX announcement	Label
5 April 2016	908,260	5.88%	EMC expands Team with key Board and Executive Appointments	1
15 April 2016	1,526,410	13.79%	Annual Report to shareholders	2
16 May 2016	381,000	5.94%	Australian Investor Roadshow Presentation May 2016	3
19 May 2016	1,719,950	12.61%	Results of Meeting	4
10 June 2016	909,590	6.06%	Form 603 & Form 605 Appendix 3B	5
17 June 2016	259,570	5.81%	Change of Director's Interest Notice RI	6
11 July 2016	607,780	10.20%	China Strategy Emefcy Investor Roadshow	7
1 August 2016	1,967,590	(7.80%)	Appendix 3B	8
15 August 2016	1,199,930	5.63%	EMC Announces Signing of First China Regional Partnership Co	9
10 October 2016	2,584,260	8.21%	EMC Signs Strategic China Regional Partnership	10
17 October 2016	1,309,860	(7.11%)	Appendix 3B	11
2 November 2016	1,062,020	(5.21%)	Strategic China Regional Partnership with Jiangsu Jinzi	12
25 November 2016	3,041,570	10.11%	Strategic China Partnership to Deploy Treatment Plants	13
14 December 2016	699,160	3.25%	1st China Demonstration Plant Commissioned Ahead of Schedule	14
27 January 2017	220,910	(2.87%)	Inauguration of EMC MABR Wastewater Treatment Plant in US VI	15
1 February 2017	271,940	(3.61%)	Emefcy announces MoU with Stanford University	16
13 February 2017	172,310	0.64%	Emefcy Signs 2nd Ethiopia Contract for Wastewater Treatment	17
30 March 2017	890,090	2.38%	Emefcy Group & RWL Water Announce Strategic Alliance	18
5 May 2017	1,447,810	10.59%	Emefcy announces intention to merge with RWL Water	19

Source: S&P Capital IQ and PPB analysis, Emefcy website, ASX website

The share price appears to have mostly responded positively to each announcement of the China strategy and strategic alliances, including the RWL strategic alliance announced on 30 March 2017 when the share price increased 2.4% from the previous day.

The following figure illustrates the comparison of the trading performance of Emefcy's share price to the S&P/ASX All Ordinaries Index since 31 December 2015. Emefcy has over performed relative to the index over the period. The share price performance was up approximately 165.6%, compared to the increase in S&P / ASX All Ordinaries Index of 8.9%. Emefcy's share price has shown to be 'counter cyclical to the Index over the period. This could be due to most of the Company's business being outside of Australia. Emefcy's share price has shown greater volatility relative to the index, which is not uncommon given the enhanced diversification of an index compared to a single company.

Figure 4: Emefcy's share performance compared to the ASX All Ordinaries index



Source: S&P Capital IQ and PPB analysis, Emefcy website, ASX website

Table 9 summarises the cumulative change in share price since 5 May 2017 up to 17 May 2017.

Table 9: Quoted share price after the announcement of Proposed Transactions

Date	Traded days	High price AUD	Low price AUD	Close price AUD	% change from 5 May 2017
5-May-17	1	0.9750	0.8550	0.9400	0.0%
9-May-17	5	0.9000	0.8550	0.8650	(8.0)%
14-May-17	10	0.8850	0.8650	0.8850	(5.9)%
17-May-17	13	0.8800	0.8150	0.8600	(8.5)%

Note: 'traded days' includes only days with volume traded

Source: S&P Capital IQ, PPB analysis

On the announcement date the share price increased to AUD0.940 (10.6%), up from the prior day close of AUD0.850. Refer to section 3.9 for further commentary on the share price movements.

3.9. VWAP analysis

Table 10 summarises Emefcy's VWAP before the Valuation Date. Emefcy's shares had a 20 day VWAP of AUD0.828 up to 31 March 2017.

Table 10: VWAP analysis up to 31 March 2017

Trading period to 31-Mar-17	VWAP AUD	High price AUD	Low price AUD	Cumulative volume traded	% of issued shares ('free float')
1 day	0.8444	0.8600	0.8300	311,560	0.2%
5 day	0.8439	0.8700	0.8050	2,055,250	1.0%
10 day	0.8400	0.8700	0.8050	3,230,600	1.6%
15 day	0.8367	0.8700	0.8000	4,645,990	2.3%
20 day	0.8282	0.8700	0.7600	5,672,720	2.8%
30 day	0.8106	0.8700	0.7350	7,996,560	3.9%
6 month	0.9027	1.1800	0.6550	71,108,830	34.8%
1 year	0.7843	1.1800	0.3100	181,297,380	97.0%

Source: S&P Capital IQ

Notes:

1. *The Proposed Transaction was announced on 5 May 2017*
2. *% of free float shares: estimated assuming 80% of issues shares are free float (80% estimated using ASX share notifications dated 13 April 2016 and 10 April 2017).*

In relation to the above table, we note:

- the average daily volume of shares traded is approximately 496,705 (approximately 0.3% of free float shares) and 97% over the year
- the volume of shares trade before the announcement on 5 May 2017 of the Proposed Transactions was 97% over the one year to 31 March 2017 and 34.8% over the 6 months to 31 March 2017
- the spread of bid / ask share price is approximately 2%, which is minimal
- the free float represents approximately 80% of total shares on issue.

Based on the relatively high level of shares traded and the small bid / ask spread, we consider the shares of Emefcy to be relatively liquid.

Table 11 summarises Emefcy's VWAP after announcement of the Proposed Transactions. Emefcy's shares had a 10 day VWAP of AUD0.921 since 5 May 2017.

Table 11: VWAP analysis after announcement date 5 May 2017

Trading period to 31-Mar-17	VWAP AUD	High price AUD	Low price AUD	Cumulative volume traded	% of issued shares ('free float')
1 day	0.9353	0.9750	0.8550	1,447,810	0.7%
5 day	0.9309	1.0000	0.8550	4,495,960	2.2%
10 day	0.9213	1.0000	0.8550	5,841,240	2.8%
13 day	0.9077	1.0000	0.8150	7,672,950	3.7%

Source: S&P Capital IQ

Notes:

1. *The Proposed Transactions were announced on 5 May 2017*
2. *% of free float shares: estimated assuming 80% of issues shares are free float (80% estimated using ASX share notifications dated 13 April 2016 and 10 April 2017).*

In relation to the above table, we note:

- the shares had 13 day VWAP after the announcement date of AUD0.908, which represents an increase of 9.6% when compared to the 20 day VWAP prior to the Valuation Date.
- the average daily volume of shares traded increased by approximately 19% after the announcement of the Proposed Transactions to approximately 590,227 (approximately 3.7% of free float shares) over 13 days.
- the spread of bid / ask share price since the announcement date is approximately 1%, which is minimal.

3.10. Historical financial performance

The consolidated financial performance of Emefcy for the financial year ended 31 December 2015 ('FY15') and 31 December 2016 ('FY16') is summarised in Table 12.

Table 12: Summary of financial performance

USD'000	FY15 Audited	FY16 Audited
Revenue	-	792
Cost of sales	-	2,007
Gross profit	**-**	**(1,214)**
Research and development expenses	-	2,045
Sales and marketing expenses	126	950
Administrative expenses	554	1,910
Corporate consulting fees	100	1,444
Director expense	91	1,037
Legal expenses	76	254
EBITDA	**(946)**	**(8,853)**
Amortisation	-	(153)
Depreciation	(71)	(145)
EBIT	**(1,017)**	**(9,152)**
Finance income	1	19
Finance costs	(33)	(12)
Foreign exchange gain /(loss)	(239)	1,080
Exchange differences on translation of foreign operations	226	(881)
Listing expense recognised on acquisition	(7,801)	(1,000)
Profit/(loss) before tax	**(8,862)**	**(9,946)**
Revenue growth	*n/a*	*100%*

Source: Emefcy annual report for the years ended 31 December 2015 and 31 December 2016
n/a – not available, n/m – not meaningful

Our comments on the audited historical financial performance of Emefcy are as follows:

Revenue

Revenue for each of Emefcy's service offerings is summarised in Table 13.

Table 13: Summary revenue

USD'000	FY15 Audited	FY16 Audited
MABR sales in Israel	-	230
MABR sales outside of in Israel	-	552
Other income	-	10
Total Revenue	**-**	**792**

Source: Emefcy annual financial report for the years ended 31 December 2015 and 31 December 2016

Comments on revenue:

- Nil revenue in FY15 due to the business still being in development phase.
- FY16 revenue relates to first sales of the MABR wastewater treatment solutions, including:
  - the first commercial installation at Ha'Yogev, Israel on 19 September 2016.
  - the second installation in Bordeaux in St Thomas, US Virgin Islands commenced on 27 January 2017.
- YTD revenue (unaudited) for the three months to 31 March 2017 was USD0.6 million.

Operating costs

Research and development costs of USD2.0 million were incurred in FY16 relating to the development of the MABR wastewater treatment solutions. As stated previously, the first commercial installation of the MABR product occurred in September 2016.

Other expenditure items relate to general operating and compliance costs e.g. Administration, Director fees, Salaries, Marketing and Legal costs.

EBITDA

Due to Emefcy being in the startup/development phase, it is currently generating negative EBITDA (2015: USD0.9 million and 2016: USD8.8 million). These losses have been mostly funded by issuing of ordinary shares and government grants (programs sponsored by the Office of Chief Scientist).

Impairment of intangible assets

The amortisation charge in 2016 of USD0.2 million relates to capitalised development costs (development of the wastewater technology - MABR), which management estimated to have a useful life of 15 years.

Other

Finance income has increased due to an increase in average cash and cash equivalents (noting the increase between 31 December 2015 (USD8.5 million) and 31 December 2016 (USD22.9 million).

Foreign exchange (and translation) gains/losses occurred for several reasons, including but not limited to:

- the functional currently of the business group being denominated in USD
- the global nature of operations:
  - the principle place of business/manufacturing in Israel
  - the registered office in Australia
- sales and expenditure originating from various geographic locations.

In 2015 Emefcy listed on the Australian Stock Exchange through a merger with listed company Savcor Group Limited. Listing costs incurred because of this transaction totaled USD2.3 million (plus USD5.0 million non-cash accounting adjustment) in 2015 and a further USD1.0 million in 2016.

3.11. Historical financial position

The consolidated financial position of Emefcy as at 31 December 2015 and 31 December 2016 is summarised in Table 14.

Table 14: Summary of financial position

USD'000	31 Dec 2015 Audited	31 Dec 2016 Audited
Current assets		
Cash and cash equivalents	8,511	23,004
Trade and other receivables	204	713
Inventories	195	452
Prepayments	68	205
Total current assets	**8,978**	**24,374**
Non-current assets		
Other receivables	2	49
Property, plant and equipment	824	1,039
Intangible assets	2,287	2,134
Total non-current assets	**3,113**	**3,222**
Total assets	**12,091**	**27,597**
Current liabilities		
Trade and other payables	618	1,371
Provisions	-	123
Other financial liabilities	-	1,000
Total current liabilities	**618**	**2,494**
Non-current liabilities		
Other payables	1,112	1,039
Other financial liabilities	1,000	-
Total non-current liabilities	**2,112**	**1,039**
Total liabilities	**2,729**	**3,533**
Net assets	**9,362**	**24,064**
Contributed equity	28,482	53,129
Other reserves	226	(655)
Accumulated losses	(19,346)	(28,411)
Total equity	**9,362**	**24,064**

Source: Emefcy consolidated financial statements for the years ended 31 December 2015 and 31 December 2016

We make the following comments in relation to the financial position of Emefcy.

Table 15: Cash and cash equivalent

USD'000	31 Dec 2015 Audited	31 Dec 2016 Audited
Cash and cash equivalents	8,479	22,871
Short term deposits	-	115
Restricted cash	32	19
Total cash and cash equivalents	**8,511**	**23,004**

Source: Emefcy consolidated financial statements for the years ended 31 December 2015 and 31 December 2016

Cash and cash equivalents as at 31 December 2016, mostly reflects the cumulative FY15 and FY16 (net) cash from issues of ordinary shares totalling USD32.4 million, less operating losses and listing costs.

Table 16: Summary of property, plant and equipment

USD'000	31 Dec 2015 Audited	31 Dec 2016 Audited
Computers and peripheral equipment	42	51
Office furniture and equipment	26	31
Production line	752	924
Leasehold improvements	4	34
Total property, plant and equipment	**823**	**1,039**

Source: Emefcy consolidated financial statements for the year ended 31 December 2015 and 31 December 2016

Property, plant and equipment mostly relates to expenditure incurred on development and completion of the production line.

Intangible assets relate to the capitalised development costs incurred during the development of wastewater treatment technology – MABR. These costs include salaries and wages for research and development staff, technical equipment, materials, patents and other directly attributable costs. This expenditure is being amortised over their estimated 15-year useful life.

Table 17: Other financial liabilities

USD'000	31 Dec 2015 Audited	31 Dec 2016 Audited
Current: Acquisition milestone 2 payable	-	1,000
Non-Current: Acquisition milestone 1 payable	1,000	-

Source: Emefcy consolidated financial statements for the year ended 31 December 2015 and 31 December 2016

The other financial liabilities relate to the transaction between Emefcy Group Limited and Emefcy Limited (Israel), where a maximum liability of USD2 million is payable to a shareholder of Emefcy Limited (Israel) on completion of the acquisition in lieu of receiving shares in Emefcy Group Limited.

These payables are subject to the satisfaction of certain milestones:

- Milestone 1 – A module of the Spiral Aerobic Biofilm Reactor ('SABRE') (now referred as MABR) being delivered to the first customer's site on, or before 18 June 2016
- Milestone 2 – Achieving cumulative USD2 million in sales within 24 months of the transaction completion date (18 December 2015).

In accordance with the payment terms to the redeemable note holder, the first milestone was achieved on 29 March 2016 and paid from the proceeds of a capital raising at the end of July 2016.

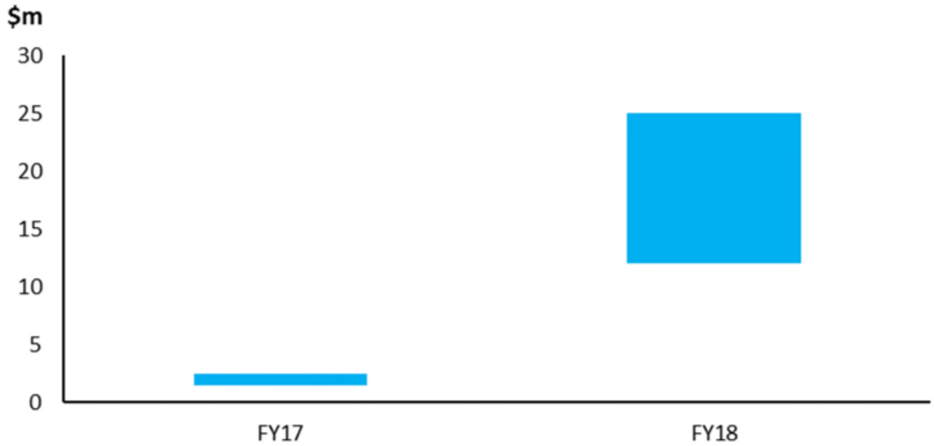
3.12. Audit report

The auditors provided unqualified audit opinions for Emefcy's 31 December 2015 and 31 December 2016 financial statements.

3.13. Forecast financial performance

The forecast revenue of Emefcy for the financial year ending 31 December 2017 ('FY17'), 31 December 2018 ('FY18') is summarised in Figure 5.

Figure 5:Forecast revenue range



Source: Management

During the forecast period the business losses are anticipated due to the business still being in its growth phase.

Our comments on the forecast financial performance of Emefcy are as follows:

- The above forecasts have been endorsed by the Directors.
- Revenue forecasts have been independently reviewed by a "Top 10" international accounting firm and found to "not be unreasonable".
- FY17 forecast revenue reflects the transition from the successful development of MABR based waste water treatment technology to being a global provider of wastewater treatment systems.
- FY18 forecast revenue is based on a detailed assessment of the Company's expected sales order pipeline at 31 December 2017, and modest conversion of current sales pipeline opportunities in China, Ethiopia, Middle East and the Americas.
- In China, Emefcy has established a portfolio of six strategic partnerships with large, government backed, waste water solutions groups which collectively have distribution reach into a significant number of Provinces (estimated to represent over 56% of the estimated China market opportunity). Through these established partnerships, Emefcy has deployed and is in the process of deploying five demonstration MABR waste water treatment systems. Additionally, Emefcy recently announced the first planned deployment of a commercial scale waste water treatment system in the Zhejiang province.
- To achieve the FY18 sales forecasts, the revenue pipeline needs to convert into sales orders and the company needs to be able to execute these sales orders. The existing strategic alliance with RWL is accelerating the design and production of packaged plants for China deployment. In the medium term, management expect production to meet China demand will come from its 100% owned Chinese manufacturing facility (currently being fitted out).
- The business is currently in its ramp up phase and rolling out its China strategy. Management believe that the whole market opportunity in China is potentially USD15 billion.
- From a risk perspective, it is possible that actual revenues for Emefcy may differ from forecasts (upside or downside). It's possible that channel distribution partners in China may order more or less Emefcy MABR based products than forecast.

4. Overview of RWL

In the sections below we provide a brief summary of the history and operations of RWL, for more detail refer to section 2.4 of the Explanatory Memorandum.

4.1. Brief history and overview of operations

RWL is a global water treatment business that provides water and wastewater treatment, water reuse and recovery, wastewater-to-energy solutions for industrial and municipal entities. RWL offers a fully-integrated platform with manufacturing, financing, installation, operating, consulting and maintenance capabilities for customers worldwide. It has operations, in United States, Israel, Italy, Brazil, the Middle East and Argentina.

RWL is a privately owned company that is ultimately controlled by Mr Lauder. It is a limited liability company formed in the State of Delaware with its business address and head office in New York City, United States of America. RSL is the sole member of RWL, and Mr Lauder is the owner of RSL.

RWL's head office in New York is responsible for the financial control of the group, developing strategies, and coordinating and supporting sales, operations and marketing.

The key operating entities include:

- **RWL Water Argentina** (Unitek S.A., Mar del Plata, Argentina): represents RWL in South American and is RWL's centre of competence for reuse technologies
- **RWL Water Israel** (Nirosoft Industries Ltd.): RWL's centre of competence for the design and manufacture of seawater and brackish water desalination systems and membrane-based desalination and brackish water technology
- **RWL Water Italia** (Eurotec WTT, S.r.l.): RWL's technology centre for wastewater-to-energy, anaerobic wastewater treatment and many food and beverage industry related solutions
- **RWL Water USA** (Aeromix Systems Inc.): represents RWL in the United States and Canadian markets and is RWL's centre of competence for aerobic wastewater treatment technologies.
- **RWL Water Brazil** (Acquavit, Ltd): represents RWL in the Brazil market.

RWL has sales offices in France, Chile, Colombia and Mexico and in 2014 established RWL Water Middle East FZE ("RWL Water ME") in Dubai to expand its footprint in the Middle East and North Africa.

Figure 6: RWL locations

Source: RWL

RWL is a fast-growing global water solutions business. It has designed and built more than 7,000 water treatment solutions and is represented in about 70 countries globally.

RWL was recently nominated for the 2017 Global Water Awards in the category of "Water Company of the Year".

RWL has developed the following product and services:

- **Drinking Water Treatment:** standard and custom-designed water treatment solutions that deliver high-quality, safe water to municipalities in densely populated areas, as well as remote communities.
- **Desalination:** standard and custom-designed water treatment solutions for municipal, industrial wastewater, reclamation desalination, process water desalination, seawater desalination and brackish water desalination.
- **Wastewater Treatment Solutions:** standard and custom-designed industrial and municipal wastewaters solutions, which deal with various types of pollutants, such as dissolved organic matter, fats and oils, nitrogen compounds, suspended solids, heavy metals, surfactants etc.
- **Recovery and Reuse:** treatment of wastewater and process water to purity levels that allow its reuse in industrial, agricultural, or municipal processes.
- **Waste-to-Energy Solutions:** Biomass treatment by anaerobic digestion produces biogas, which allows the simultaneous generation of electricity and thermal energy.
- **Food and Beverage Processing:** custom design of treatment plants using ion-exchange resins and absorbent resins for food processing solutions e.g. for wine, fruit juices, whey demineralisation and cane sugar decolourising.

Table 18 summarises key milestones over the last 7 years.

Table 18: Summary of key milestones

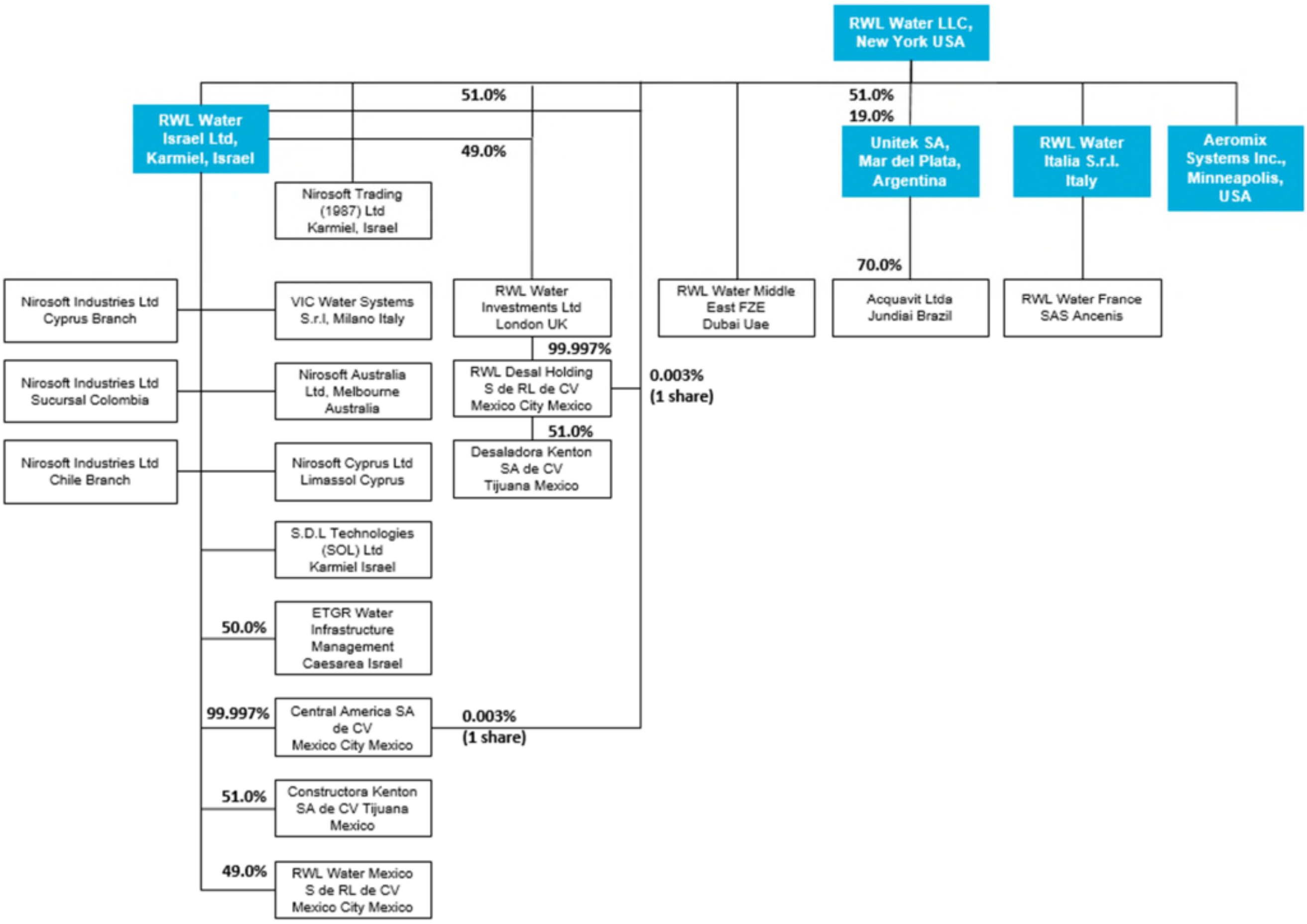
Date	Key milestone
2010	• Ronald Lauder establishes RWL Water Group. • RWL Water acquires Nirosoft Industries, an Israeli company focused on providing seawater desalination, high purity water systems, demineralized water, mobile and emergency units. • RWL Water acquires Aeromix Systems, Inc., an American company and expert manufacturer of aeration equipment and packaged wastewater treatment plants.
2011	• RWL Water acquires Eurotec WTT, an Italian company and renowned manufacturer of anaerobic digestion systems, aerobic and anaerobic wastewater treatment plants and ion exchange systems. • RWL Water establishes international sales offices in Chile, Colombia and Mexico.
2013	• RWL Water Aeromix acquires the assets of Tipton Environmental, a packaged wastewater treatment manufacturer in Ohio • RWL Water Nirosoft aligns with Nubian as a strategic partner to provide complete end-to-end water solutions in Australia. • RWL Water Eurotec establishes Maiveo, a company focused on serving the water and wastewater treatment markets in France. • RWL Water acquires Unitek S.A., a leader in water treatment in South America and an expert in applying membrane based technologies including reverse osmosis, ultrafiltration and membrane bioreactors, among other complex systems for process water and reuse.
2014	• RWL Water establishes international sales office in Dubai • RWL Water rebrands and changes company name from RWL Water Group to RWL Water. Portfolio companies eliminate their heritage names and also change to "RWL Water". As a result, the global solutions provider operates now as one company worldwide.
2015	• RWL Water partners with Praxair, a global supplier of industrial gases and technologies that apply pure oxygen for unparalleled wastewater treatment. • RWL Water launches the EcoBox™ in Latin America, an innovative, containerized solution that will change the paradigm of wastewater reuse.
2016	• RWL Water establishes an office in Brazil. • RWL Water announces joint venture with Química Apollo in response to Mexico's growing water and wastewater needs.

Source: Management

4.2. Group structure

RSL (parent entity) owns 100% of the shares in RWL Water LLC.

Figure 7: RWL group structure



Source: RWL

4.3. Business outlook

RWL is projecting revenue in FY17 to increase by 50% (to USD90.0 million) over FY16 (USD60.9 million) and continue to grow in FY18. This revenue growth is based on its existing networks and has locked in approximately 71% of total budgeted revenue for FY17 as at 30 April 2017, with identified opportunities that if successful could result in revenues exceeding budget.

YTD revenue to 31 March 2017 was below budget, which management attribute to the timing (delayed execution) of projects and expects will be made up over the remainder of FY17 (refer to Section 4.8).

Overall performance is forecast to improve, however, is expected to be EBITDA negative throughout FY17 and FY18. Management anticipate that the business will be EBITDA breakeven (or nearing breakeven) by late FY18.

4.4. Directors

Table 19 summarises the experience of the directors of RWL as at 31 March 2017.

Table 19: Directors

Name	Position	Brief resume
Ronald S. Lauder	Chairman and Founder	Founder and Chairman of RWL. As Chairman, leads recruitment of managers, negotiating large international sales and establishing joint ventures. Current chairman of Clinique Laboratories (a division of The Estee Lauder Companies Inc). Member of the Board of Governors of the Joseph H. Lauder Institute of Management and International Studies, and member of the Visiting Committee of the Wharton School, both at the University of Pennsylvania. Has extensive experience in in senior executive, leadership and advisory roles.
Fred Langhammer	Vice Chairman & Director	Chairman, Global Affairs, of The Estee Lauder Companies Inc. Has over 30 years' experience in in senior executive, leadership and advisory roles. Director of The Walt Disney Company since 2005 and director of Central European Media Enterprises, Ltd. since December 2009. Director of the Shinsei Bank Limited from 2005 to 2009, a director of AIG from 2006 to 2008 and is Chairman Emeritus of the American Institute for Contemporary German Studies at Johns Hopkins University.
Richard Parsons	Vice Chairman & Director	Senior Advisor at Providence Equity Partners, Inc and has extensive experience in in senior executive, leadership and advisory roles. He is also a member of the boards of The Estée Lauder Companies Inc., Lazard Frères, and Madison Square Garden, Inc.
Dr. Rengarajan Ramesh	Director and Technical Advisor	Non-Executive Director and Technical Advisor bringing over 30 years of global operating, acquisition and technology experience. Previously held senior management positions at GE Water & Process Technologies, including Chief Technology Officer Played a key role in the development and implementation of the strategy that led to the creation of GE's USD2.5 billion global water platform
Gideon Argov	Director	Advisory Director of Berkshire Partners, a private equity firm based in Boston. Has over 25 years' experience in in senior executive, leadership and advisory roles. Member of the Council of Foreign Relations and serves on the international council of the Belfer Center at the JFK School of Government, Harvard University.
Andrew Gaspar	Director	Director of RWL and is responsible for helping to establish the Company's strategy as well as overseeing the preparation and establishment of the company's project finance affiliate. He is principal of Gaspar Global Ventures, an angel investment fund. Has more than 30 years' experience in private equity and has served on the Boards of Directors of 26 public and private companies.
David Gerson	Director	Director of RWL and is an attorney and a certified public accountant. He is the Chief Financial Officer of RSL Management Corporation and the President of RSL Capital LLC and RSL Investments Corporation.
Henry J. Charrabé	President & CEO, Global Operations	Brings over a decade of experience in developing water management and investment solutions. Helped establishment of RWL Water as a global player through strategic acquisitions and organic growth. Responsible for creating the integrated sales structure in North, Central and South America, as well as in the Middle East and Europe
Robert Wowk	CFO, Global Operations	Over 25 years' experience building significant cross functional and international capabilities in finance, business development and restructuring. Proven success in implementing strategies, integrating and right sizing businesses ranging up to USD3 billion Evaluated, recommended and structured (project financing, sponsor guarantees) for over USD2b in major build own operate projects
Philippe Laval	COO, Global Operations	Has over 27 years of leadership experience in operations and technology companies in the environmental industry in Europe, UK, Australia North America and Latin America. Has worked more than 20 years for Veolia water and has extensive experience in the water and wastewater industry.

Source: RWL website and Management

4.5. Capital structure

RSL owns 100% of the LLC interests in RWL.

4.6. Historical financial performance

The consolidated financial performance of RWL for the years ended FY15 and FY16 is summarised in Table 20.

Table 20: Summary of financial performance

USD'000	FY15 Audited	FY16 Audited
Revenue	54,879	60,932
Cost of sales	50,986	49,067
Gross profit	**3,893**	**11,865**
Selling, general and administrative expenses	41,471	28,740
EBITDA	**(37,578)**	**(17,115)**
Amortisation and depreciation	(2,296)	(1,624)
Impairment of goodwill and intangibles	(1,264)	-
Finance income	12,467	13,239
Foreign exchange gain /(loss)	1,095	(6,765)
Other income, net	3,095	9
Loss before tax	**(24,482)**	**(12,257)**
Income tax (expense) / refund	(177)	(2,773)
Loss after tax	**(24,658)**	**(15,030)**
Net (loss) gain attributable to non-controlling interest	(756)	202
Net loss attributable to RWL Water Group	**(25,414)**	**(14,828)**

Source: annual reports of RWL for years ending 31 December 2015 and 31 December 2016

The financial performance of RWL is based on the consolidation of the following entities:

Table 21: Summary of entities consolidated

Entity Name	Currency	31 Dec 2015	31 Dec 2016
RWL Water, LLC		Parent	
Aeromix Systems Inc	USD	80%	100%
RWL Water Italia S.r.l[1]	EUR	67%	67%
RWL Water Israel Ltd	ILS	100%	100%
Nirosoft Trading (1987) Ltd	ILS	100%	100%
Unitek S.A.	ARS	70%	70%
Maiveo S.A.S	EUR	100%	100%
RWL Water Central America S. de RL de CV	MXN	100%	100%
RWL Water Middle East FZE	AED	100%	100%
Nirosoft Australia Pty Ltd.	AUD	100%	100%
Nirosoft Cyprus Ltd.	EUR	100%	100%
E.T.G.R Water Infrastructure Management Ltd.	ILS	50%	50%
SDL Technologies (SDL) Ltd.	ILS	100%	100%
VIC Water Systems S.r.l.	EUR	100%	100%
RWL Water Investments Ltd.	USD	100%	100%
RWL Water Desal Holding S. de RL de CV	MXN	100%	100%
Desaladora Kenton S.A. de C.V.	MXN	51%	51%
Constructora Kenton S.A. de C.V.	MXN	0%	51%
RWL Water Mexico S. de RL de CV	MXN	0%	49%

Note: 1. Since January 2017, RWL Water Italia S.r.l., is 100% owned by RWL Water, LLC.
Source: annual reports of RWL for years ending 31 December 2015 and 31 December 2016

We make the following comments on the consolidated financial performance of RWL.

Revenue

Revenue in FY16 increased by USD6.1 million (11.0%) to USD60.9 million (FY15: USD54.9 million). YTD revenue to 31 March 2017 was USD7.8 million, which was below budget, however, Management believes this below budget revenue will be recovered during the remainder of the year from the growing sales pipeline. RWL management advises approximately 71% of the FY17 budgeted revenue has now been recognised (or is in the pipeline). To date RWL has designed and built over 7,000 water, wastewater and reuse solutions.

Cost of sales in FY16 declined by USD1.9 million, despite the growth in revenue.

Gross margin as a result of the above factors, improved materially from 7.1% (USD3.9 million) to 19.1% (USD11.6 million).

EBITDA

RWL has been developing its product offering since 2010 and revenue has grown steadily in the last two years. However, the business is currently generating negative EBITDA (2015: USD37.6 million and 2016: USD17.1 million). The majority of losses have been funded by the parent company RSL Investments Corp.

Impairment of intangible assets

Total amortisation charge for 2016 was USD1.3 million, which is based on the estimated useful lives of the corporate trade name, developed technology and customer relationships of 3 to 7 years, 3 to 5 years and 0 to 4 years respectively.

Nil amortisation was recognised in relation to RWL's investments in RWL Water Italy and RWL Water Argentina.

Other

Finance income has increased due to an increase in average cash and cash equivalents (noting the increase between 31 December 2015 (USD12.5 million) and 31 December 2016 (USD13.2 million).

Foreign exchange (and translation) gains/losses occurred for several reasons, including but not limited to:

- the functional currently of the business group being denominated in USD
- the global nature of operations:
  - the principle place of business being in New York, USA
  - the manufacturing/assembly space across the world e.g. Israel, Argentina, USA and Brazil.
- sales and expenditure originating from various geographic locations.

4.7. Historical financial position

The audited consolidated financial position of RWL as at 31 December 2015 and 31 December 2016 is summarised in Table 22.

Table 22: Summary historical financial position

USD'000	31 Dec 2015 Unaudited	31 Dec 2016 Unaudited
Current assets		
Cash and cash equivalents	77,026	62,780
Trade and other receivables	17,065	12,751
Inventories	3,346	4,348
Prepayments	8,688	5,045
Other receivables	2,593	1,751
Total current assets	**108,717**	**86,675**
Non-current assets		
Other receivables	3,137	5,699
Property, plant and equipment	2,142	2,012
Intangible assets	7,520	6,479
Total non-current assets	**12,799**	**14,191**
Total assets	**121,516**	**100,866**
Current liabilities		
Trade and other payables	36,136	47,420
Borrowings	6,735	1,218
Deferred income	60,188	36,924
Tax payable	307	384
Total current liabilities	**103,365**	**85,945**
Non-current liabilities		
Deferred tax payable	1,387	901
Other payables	4,406	2,719
Borrowings	77	-
Total non-current liabilities	**5,871**	**3,620**
Total liabilities	**109,236**	**89,565**
Net assets	**12,280**	**11,300**
Members equity	**12,280**	**11,300**

Source: RWL consolidated financial statements for the year ended 31 December 2016 (and prior year comparatives)

We make the following comments on the consolidated financial position of RWL.

Table 23: cash and cash equivalents

USD'000	31 Dec 2015 Unaudited	31 Dec 2016 Unaudited
Cash and cash equivalents	7,292	10,878
Short-term investment	66,221	50,952
Customer deposits	3,513	960
Total cash and cash equivalents	**77,026**	**62,780**

Source: RWL consolidated financial statements for the year ended 31 December 2016 (and prior year comparatives)

The majority of the cash (and cash equivalents) as at 31 December 2015 and 31 December 2016 relates to short-investments. RWL receives upfront payments from clients in relation to contracted works, which it invests on a short-term basis (e.g. fixed term deposits, bonds etc.). These investments are at various interest rates and help to preserve the value of advanced payments and mitigate exchange rate movements.

Table 24: Summary of intangible assets

USD'000	31 Dec 2015 Unaudited	31 Dec 2016 Unaudited
Goodwill	2,572	2,359
Corporate trade name	1,073	799
Developed technology	3,192	2,487
Customer relationships	584	211
Other intangible assets	99	624
Total intangibles (net)	**7,520**	**6,479**

Source: RWL consolidated financial statements for the year ended 31 December 2016 (and prior year comparatives)

The carrying value of intangible assets decreased by USD1.0 million during FY16 to USD6.5 million as at 31 December 2016 (31 December 2015: $7.5 million), which can largely attributed to the USD13 million amortisation charge, USD0.2 million foreign currency translation and USD0.5 million increase in other intangible assets.

Trade and other payables increased from USD36.1 million as at 31 December 2015 to USD47.4 million as at 31 December 2016. The majority of this increase relates to a USD10.2 million increase in accruals.

Deferred revenue decreased by USD23.9 (39.9%) million during FY16 to USD36.1 million as at 31 December 2016. Deferred revenue relates to amounts received in advance of project works commencing and subsequently recognised in the profit and loss as project works are completed.

4.8. Forecast financial performance

RWL is a well-established, global provider of water, wastewater and waste-to-energy treatment solutions with over 7,000 deployments worldwide in over 70 countries. As a more mature business, RWL has forecast revenue for FY17 of USD90 million.

During the forecast period the business losses are anticipated due to the business still being in its growth phase. Profitability is expected in FY19.

Our comments on the forecast financial performance of RWL are as follows:

- The directors of RWL have endorsed the above forecasts.
- As at 30 April 2017, approximately 71% of this forecast was secured by actual revenue and revenue expected from secured contract pipeline. An additional 11% of the forecast revenue is anticipated to be secured from projects where RWL is the preferred tenderer. Therefore for the remainder of FY17, a relatively low conversion of the revenue pipeline to sales is required to achieve the revenue forecast.
- Significant due diligence has been undertaken by Emefcy on the above forecasts. Revenue forecasts have been independently reviewed by a "Top 10" international accounting firm and found to "not be unreasonable".
- Revenue is forecast to grow by approximately 50% in FY17 (FY16: USD60.9 million - unaudited) and Management anticipate further growth in FY18. FY18 growth is anticipated to be achieved through existing customer networks, integration with Emefcy and entering the Chinese market.
- From a risk perspective, it is possible that actual revenues for RWL may differ from forecasts (upside or downside). It is possible that RWL Water projects may be delayed for reasons outside the company's control. A number of revenue upside opportunities for RWL Water for 2017 have also been identified.

5. Industry overview

We have referred to the latest applicable IBISWorld reports[16] and other publicly available market publications as sources for our commentary on the water treatment services and water and waste services infrastructure construction industries in Australia. Our global commentary is based on latest available information from The World Bank[17] report, Food and Agriculture Organisation[18] and other publicly available market publications.

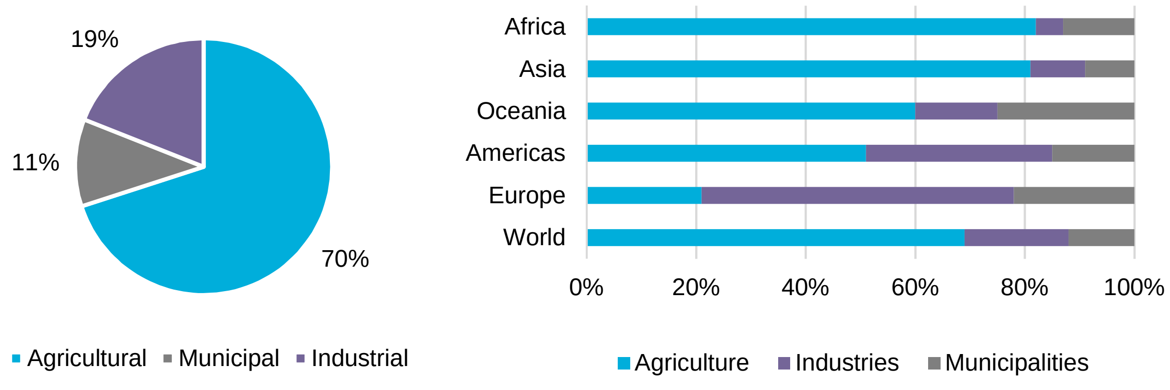
5.1. Introduction

Emefcy and RWL provide water, wastewater and wastewater-to-energy solutions for industrial and municipal entities.

Due to the increasing scarcity of freshwater and the increasing demand from industrial and municipal entities for fresh water, there is an increasing push to treat wastewater for reuse. An example of some demand drivers are as follows:

- population growth increases demand for water supply
- growth in developing countries where wastewater treatment is non-existent or poorly developed (globally poor sanitation, water and hygiene lead to 675,000 premature deaths annually)
- aging infrastructure that requires updating
- mandatory (increasingly stringent) compliance requirements with wastewater related legislation
- environmental factors, such as droughts and rainfall irregularity

Figure 8: Global water usage



Source: FAO. 2016. AQUASTAT website.

Based on the 2016 global water statistics provided by the Food and Agriculture Organisation, total precipitation falling on land is approximately 110,000 km^3 per year. It is estimated 65% of the total precipitation is absorbed by plants and evaporation, 39% attributed to surface runoff into rivers, lakes and groundwater and only 5 percent is attributed to rain fed agriculture.

The majority of water withdrawal is consumed by agriculture, which equates to 70% of global water consumption. However, agriculture water consumption varies by region e.g. Europe uses approximately 21% of its water for agriculture, whereas Africa uses 82%.

Water usage is increasing faster than word population growth, with water withdrawal over the last decade increased by approximately 7.3 times, whereas world's population increased by approximately 4.4 times.

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[16] IBISWorld report – Water and Waste Services Infrastructure Construction in Australia –Industry report OD5165 – April 2017, and IBISWorld report – Water Treatment Services in Australia –Industry report OD5422 – June 2016
[17] The World Bank – High and Dry: Climate Change, Water and the Economy – published 4 April 2017
[18] FAO. 2016. AQUASTAT website. Food and Agriculture Organization of the United Nations (FAO). Website accessed on 10 May 2017

The global increase in demand for water and decreasing availability of clean water ie. due to pollution, is driving the demand for global water and wastewater recycling and services.

Global water and wastewater recycling and services generated approximately USD185 billion in 2014 and grow by approximately 10% per annum between 2015 and 2024. Countries such as Kuwait, Israel, Singapore and Egypt are leading the way in terms of water reuse (91%, 85%, 35% and 32% respectively).

Growth opportunities exist in countries such as Australia, China, India and USA, where less than 20% of water reused.

In China demand for reuse is being driven by power plants, manufacturing of steel, chemicals, paper, leather and pharmaceuticals. It is estimated that the increasing demand for water recycling and reuse technologies at China's power plants will reach USD1.18 billion per annum by end of 2020

India has experienced a period of erratic rainfall patterns and this is generating strong growth opportunities in the water and wastewater recycling markets. Particularly due to extreme groundwater extraction and contamination of surface/groundwater (due to discharge of untreated sewerage and or industrial waste).

In Australia investment in water and sewerage infrastructure peaked in 2009/2010, in response to poor rainfall and lower water availability. This resulted in the Australian governments opting to invest in manufacturing technology such as desalination plants.

Australian water and wastewater services industry revenue is forecast to grow at approximately 4.7% over the next five years to FY22 and reach AUD5.5 billion. The forecast growth being attributable forecast population growth of 1.9% per annum over the next five years and upgrades of several treatment plants e.g. Western Treatment plant upgrade in Melbourne and the Kawana Sewerage Treatment Plant on the Sunshine Coast.

The global water market represents a USD700 billion[19] addressable opportunity for the combined service offerings of Emefcy and RWL. These services include: Desalination, Water, Wastewater, Waste-to-Energy, Reuse and Recovery, Food and Beverages. Some of the major players in the wastewater/water treatment industry include: Veolia environment, Suez Environment, and GE Water.

[19] Emefcy ASX announcement 'AGM Presentation' – 5 May 2017

6. Relevant economic factors

6.1. Introduction

Key economic factors which directly impact on the performance of Emefcy and RWL are:

- population and industry growth rates, and
- exchange rates.

These macroeconomic factors directly affect water treatment and emerging technology industries ie their key customers.

6.2. Population and industry growth rates

Demand for water reuse arises from water scarcity, as a result of environmental factors or changes in population growth. Generally, as populations growth there is an increase demand for water and sewerage services. Industry growth rates affect water demand, due to their high consumption e.g. power plants, manufacturing, agriculture and mining.

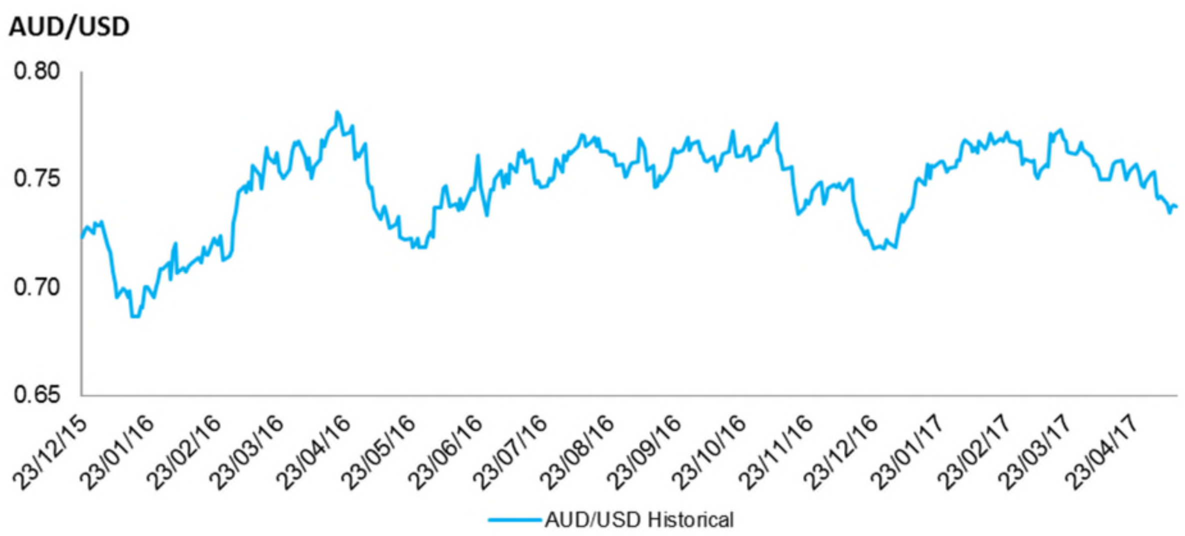
During FY15 the Australian economy consumed 17,375 gigalitres, of which, 15,522 gigalitres was consumed by industry and 1,852 gigalitres consumed by households[20].

Globally 70% of global water consumption is used in Agriculture, 19% industrial and 11% municipal.

6.3. Exchange rate movements

Emefcy and RWL financial statements are presented in USD, therefore, shareholders are affected by exchange rate movements only when translating to AUD.

Figure 9: Exchange rate



Source: Bloomberg

[20] Australian Bureau of Statistics '4610.0 - Water Account, Australia, 2014-15, published 25 November 2016

Emefcy

Emefcy's functional currency is AUD and its reporting currency is USD. Emefcy has operations in Australia, Israel, Hong Kong and China, which results in it being exposed to exchange rate movements ie. between the functional currency (AUD) and the local currency in which the transaction is occurring.

Translation of transactions denominated in currencies other than AUD are converted using the exchange rate on the date of the transaction. Any amounts payable to and by Emefcy at its reporting date (ie. 31 December) are converted to USD at the reporting date and differences recorded as gains or losses in the profit and loss.

Additionally, transactions for subsidiary entities not denominated in USD are converted using the exchange rate on the date of the transaction. Assets and liabilities of the subsidiary entities and the Australian parent entity are translated using the exchange rate on the reporting date. All resulting foreign exchange differences are recognised as part of other comprehensive income through the foreign currency reserve in equity.

RWL

RWL has operations in France, Chile, Colombia, Mexico, Dubai, Argentina, Brazil, Italy and Israel, and therefore exposed to fluctuations in exchange rates between the USD and the local currency in which the transaction is occurring.

Translation of transactions denominated in currencies other than USD are converted using the exchange rate on the date of the transaction. Any amounts payable to and by RWL at its reporting date (ie. 31 December) are converted to USD at the reporting date and resultant differences recorded in the statement of operations (profit and loss).

Additionally, transactions for subsidiary entities that are not denominated in USD are converted using average exchange rates. Assets and liabilities of the subsidiary entities and the US parent entity are translated using the exchange rate on the reporting date. All resulting foreign exchange differences are recognised as a separate component in member's equity.

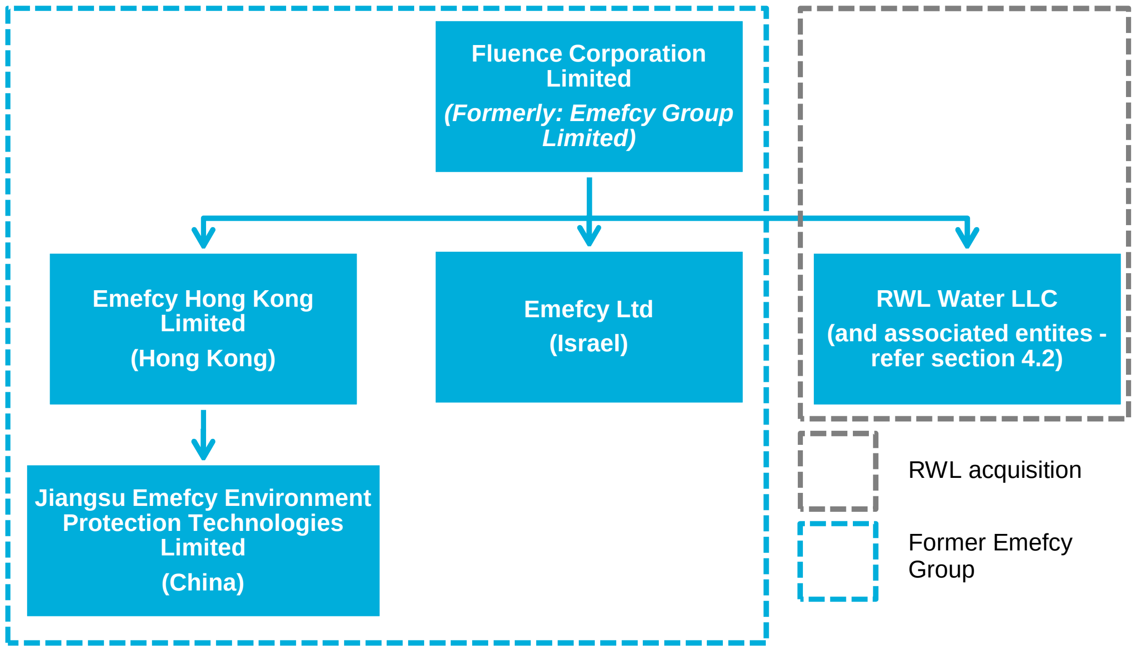
7. The Combined Group

7.1. Proposed Combined Group structure

If the Proposed Transactions proceed, the Company will remain listed on the ASX and will become the ultimate holding company of RWL. The proposed name of the new global group is Fluence Corporation Limited ('Fluence').

Figure 10 below illustrates the group structure after the Proposed Transactions:

Figure 10: Summary Combined Group structure



Source: Explanatory Memorandum

The strategy for the Combined Group is to become a global water treatment business, which provides water, wastewater and wastewater-to-energy solutions for industrial and municipal entities. This will include expanding RWL's existing markets and expanding into the Chinese market.

7.2. Business operations

This strategic acquisition is designed to expand Emefcy's existing product and service offerings. The RWL business is complementary to Emefcy's existing operations and the directors hope the Combined Group will generate economies of scale and growth opportunities.

Following the acquisition of RWL the Combined Group will be able to offer a spectrum of solutions including easy-to-ship and install modular solutions, packaged to kitted plants, or fully containerised plug-and-play plants. The directors hope that the RWL business and management team will be able to assist Emefcy in expanding into new product markets and geographic locations. Additionally, assist Emefcy in its near term strategic goal of expanding operations into the Chinese market.

The RWL management team has a wealth of experience, knowledge and strategic networks that should complement and increase the depth of Emefcy's existing management team.

The Directors believe that there are considerable potential strategic and financial benefits for the Combined Group that include:

- increased scale and diversification
- stronger global presence
- substitute/integrate the higher margin Emefcy technologies with RWL technologies ie. complimentary product offerings
- increased speed to market from containerised modular wastewater solutions
- ability to leverage existing RWL's existing networks, reputation and scale to roll out Emefcy's technology ie. somewhat shortcut the organic business growth cycle.

7.3. Strategy

It is intended that the merger will enable the Combined Group to materially expand its operations globally. Emefcy's and RWL's short to medium term focus is to grow revenue through sales into China. However, the Combined Group will also be able to leverage RWL's existing customer networks and relationships to grow globally and improve profitability by integrating Emefcy's the higher margin technology in RWL's existing wastewater solutions e.g. containerised solutions.

7.4. Shareholdings of the Combined Group

The shareholdings in the Combined Group, before and after the Proposed Transactions is summarised in Table 25.

Table 25: Summary shareholdings

	Before the Proposed Transactions		After the Proposed Transactions	
	Number of Shares million	% Interest	Number of Shares million	% Interest
Ordinary shares on issue	257,051,054	85.8	257,051,054	59.6
Issued options	20,192,943	6.7	20,192,943	4.7
Second Milestone shares[1]	22,500,000	7.5	22,500,000	5.2
Proposed Acquisition	n/a	n/a	100,500,000	23.3
Share Placement	n/a	n/a	30,842,065	7.2
Total	**299,743,997**	**100.0**	**431,086,062**	**100.0**

Note: Second Milestone shares have not been issued, however, the Directors are reasonable satisfied that they will be issued. Refer to section 3.5 for further details.

Source: PPB analysis

May not add due to rounding

7.5. Directors and key management

The board of the Combined Group will comprise:

- Richard Irving (Executive Chairman)
- Henry J. Charrabé (Chief Executive Officer and Managing Director)
- Eytan Levy (Executive Director)
- Robert Wale (Non-Executive Director)
- Rengarajan Ramesh (Non-Executive Director)
- Ross Haghighat (Non-Executive Director)
- Peter Marks (Non-Executive Director).

A summary of directors and key management are summarised in Table 26.

Table 26: Directors and key management

Name	Position	Brief resume
Richard Irving	Executive Chairman	30 years' experience in operating and investor roles. Extensive experience and involvement in multiple start-ups, 2 Nasdaq IPOs and venture funds.
Henry J. Charrabé	Managing Director & CEO	Refer section 4.4
Eytan Levy	Executive Director (President Products & Innovation)	Refer section 3.4
Ross Haghighat	Non-Executive Director	Chairman, Triton Systems; Managing Partner, Newburyport Partners. Director at Aduro Biotech (NASDAQ: ADRO), Chairman of FRX Polymers and Founder & Chairman Triton Systems Group. Founder of 9 private and public companies.
Dr. Rengarajan Ramesh	Non-Executive Director	Refer section 4.4
Peter Marks	Non-Executive Director	30+ years' experience in corporate finance, specialising in capital raisings (for listed and unlisted companies), underwriting, IPOs and venture capital transactions. Executive and Non-Executive Director of a number of listed entities on the ASX and AIM
Robert Wale	Non-Executive Director	Managing Director of BlueSand Consulting and 30+ years of executive level experience in the global water industry in multiple roles in Australia, USA & throughout the Asia-Pacific region.
Bob Wowk	Chief Financial Officer	Over 25 years of building significant cross functional and international capabilities in finance, business development and restructuring. Proven success in implementing strategies, integrating and right sizing businesses ranging up to USD3 billion
Philippe Laval	Chief Operating Officer	Refer section 4.4
Ronen Schechter	Chief Technology Officer	Co-founder of Emefcy. Accredited as one of Israel's leading technological executives in the water industry, with over 20 years' experience in research and development of water and wastewater treatment

Source: Management

7.6. Management incentive plan

Management maybe entitled to options under the Employee Share Options Plan ('ESOP'). Currently options may be offered under the ESOP without a prospectus, however, total options must not exceed 5% of the number of Shares on issue. Under the Proposed Transaction approval is being sought to increase the maximum allowable number of options to 6% of the total number of shares on issue.

The allocation of options to each employee is in the discretion of the Board having regard to skills, experience, length of service, remuneration level and such other criteria as the Directors consider appropriate in the circumstances.

The Options will be issued for nil consideration and generally are not transferable. The exercise price of the Options shall be as the Directors in their absolute discretion determine, provided that it shall not be less than 80% of the average market price of the Shares in the 5 days in which sales in the Shares were recorded immediately preceding the day on which the Directors resolve to offer the Options.

7.7. Cost synergies

Management anticipate cost synergies will be achieved over the medium to longer term, due to increase in scale and improved integration/efficiency (Emefcy products can be manufactured at a higher margin and are complimentary to the RWL's existing wastewater solutions ie. should assist with margin growth). However, profitability is expected to be mostly achieved through material revenue growth and the ability to utilise existing excess capacity ie. maintaining current cost base.

Management have advised the factory in China (Changzhou, Jiangsu) is anticipated to be commissioned in the second half of FY17 and will initially support AUD100 million sales per annum. However, production capacity can be expanded easily by implementing up to three additional production lines (each supporting AUD100 million in sales per annum) into the factory and at a relatively low cost.

7.8. Pro forma financial performance

No proforma historical profit and loss statements have been provided for the Combined Group. Management believe as a result of the China growth strategy, the forecast material growth in revenues and change in operations, that proforma profit and loss statements would not being representative of the Combined Group going forward and could be misleading.

7.9. Pro forma financial position

Table 27 summarises the balance sheet before and the pro forma balance sheet and after the Proposed Transactions.

Table 27: Summary of the pro forma balance sheet after the Proposed Transactions

USD'000	Emefcy balance sheet	RWL balances recognised on acquisition	Adjustments	Combined Unaudited pro forma
ASSETS				
Current assets				
Cash and cash equivalents[1]	22,871	10,868	20,000	53,739
Short term investment	-	50,952	-	50,952
Short term deposits	115	-	-	115
Customer deposit	-	960	-	960
Restricted cash	19	-	-	19
Trade and other receivables	713	6,758	-	7,470
Costs and estimated earnings in excess of billings on contracts-in-progress	-	5,993	-	5,993
Derivative	-	-	1,076	1,076
Inventories	452	4,348	-	4,800
Prepayments	205	6,796	-	7,001
Total current assets	**24,374**	**86,675**	**21,076**	**132,125**
Non-current assets				
Other receivables	49	5,699	-	5,748
property, plant and equipment	1,039	2,012	-	3,052
Goodwill and Intangible assets	2,134	6,479	58,041	66,654
Total non-current assets	**3,222**	**14,191**	**58,041**	**75,454**
Total assets	**27,597**	**100,866**	**79,117**	**207,579**
LIABILITIES				
Current liabilities				
Trade and other payables	1,371	9,400	3,000	13,772
Billings in excess of costs and estimated earnings on contracts-in-progress	-	820	-	820
Short term borrowings and current maturities of long term debt	-	1,218	-	1,218
Deferred revenue	-	36,104	-	36,104
Provisions	123	38,020	-	38,143
Other financial liabilities	1,000	384	3,842	5,226
Total current liabilities	**2,494**	**85,945**	**6,842**	**95,282**
Non-current liabilities				
Other payables	1,039	2,237	(1,583)	1,693
Notes payable to related parties	-	482	-	482
Deferred taxes	-	901	-	901
Total non-current liabilities	**1,039**	**3,620**	**(1,583)**	**3,076**
Total liabilities	**3,533**	**89,565**	**5,259**	**98,358**
Equity	**24,064**	**11,300**	**73,858**	**109,222**

Note: 1. PPB adjustment to increase the Cash and cash equivalents balance by USD20 million. This adjustment reflects the consideration to be received under the Share Placement.

Source: Explanatory Memorandum, Notice of Meeting and PPB analysis

Basis of preparation of the pro forma balance sheet after the Proposed Transactions

The pro forma balance sheet after the Proposed Transaction has been extracted from the Explanatory Memorandum and is based on the Combined Group unaudited pro forma statement of financial position. It has been prepared on a preliminary basis and presented using acquisition accounting principles as required by AASB 3 Business Combinations. The standard requires that all identifiable assets (including intangible assets and deferred tax balances) and liabilities that meet certain recognition criteria should be recognised in the Combined Group unaudited pro forma statement of financial position at fair value at the date of acquisition.

The figures in Table 27 may be different to those used in our valuation due to differences in assumptions such as exchange rates, expected pay down of debt and cash movements prior to the completion of the Proposed Transaction. Essentially, we used a forecast financial position, whereas the pro forma balance sheet uses actual at 31 December 2016 and other anticipated transactions recognised according to the accounting standards.

Comments on the pro forma balance sheet after the Proposed Transactions

- Management have applied a materiality threshold of USD1.8 million was applied, when accounting for differences between Emefcy's IFRS audited accounts and RWL's US GAAP audited accounts.
- No adjustments have been made for potential differences in accounting policies between RWL and Emefcy
- Merger and related costs are assumed to be USD3 million, comprising of Emefcy costs USD1.52 million and RWL costs USD1.49 million.
- Carrying values of Goodwill or Intangible Asset have not be subjected to impairment reviews e.g. for potential differences in accounting treatments.
- Any differences between RWL's book values and the purchase consideration has been included as Goodwill.
- The combined unaudited balances do not include any fair value mark ups, nor any potential additional intangible assets, which might have been identified under a purchase price allocation.
- Potential tax adjustments which may occur as a result of the merger have not been considered.
- The pro-forma balance sheet presented in the Explanatory Memorandum and Notice of Meeting does not include the USD20 million to be received under the Share Placement.

7.10. Forecast financial results

Revenue for the Combined Group is forecast to grow substantially in in FY17 and Management anticipate further growth in FY18. Approximately 70% of FY17 revenues for the Combined Group have been locked in. Further details on forecast revenues are included in Section 3.13 and Section 4.8.

During the forecast period the business losses are anticipated due to the business still being in its growth phase. Profitability is expected in FY19.

Comments on the forecast:

- Revenue forecasts have been independently reviewed by a "Top 10" international accounting firm and found to "not be unreasonable"
- RWL is a well-established, global provider of water, wastewater and waste-to-energy treatment solutions with over 7,000 deployments worldwide in over 70 countries. As at 30 April 2017, approximately 71% of this forecast was secured by actual revenue and revenue expected from secured contract pipeline. An additional 11% of the forecast revenue is anticipated to be secured from projects where RWL is the preferred tenderer. Therefore for the remainder of FY17, a relatively low conversion of the revenue pipeline to sales is required to achieve the revenue forecast.
- FY17 forecast revenue reflects the transition from the successful development of MABR based waste water treatment technology to being a global provider of wastewater treatment systems.

- FY18 forecast revenue is based on a detailed assessment of the Company's expected sales order pipeline at 31 December 2017, and modest conversion of current sales pipeline opportunities in China, Ethiopia, Middle East and the Americas.
- In China, Emefcy has established a portfolio of six strategic partnerships with large, government backed, waste water solutions groups which collectively have distribution reach into a significant number of Provinces (estimated to represent over 56% of the estimated China market opportunity). Through these established partnerships, Emefcy has deployed and is in the process of deploying five demonstration MABR waste water treatment systems. Additionally, Emefcy recently announced the first planned deployment of a commercial scale waste water treatment system in the Zhejiang province.
- For Emefcy to achieve its FY18 sales forecasts, the revenue pipeline needs to convert into sales orders and the company needs to be able to execute these sales orders. The existing strategic alliance with RWL is accelerating the design and production of packaged plants for China deployment. In the medium term, management expect production to meet China demand will come from its 100% owned Chinese manufacturing facility (currently being fitted out).
- From a risk perspective, it is possible that actual revenues for both RWL Water and Emefcy may differ from forecasts (upside or downside). It is possible that channel distribution partners in China may order more or less Emefcy MABR based products than forecast. It is possible that RWL projects may be delayed for reasons outside the company's control. A number of revenue upside opportunities for RWL for 2017 have also been identified.

7.11. Change in risk profile

Emefcy Shareholders are currently exposed to risks specific to Emefcy's underlying business operations. The Proposed Transaction is expected to change the risk profile of Emefcy such that Emefcy Shareholders are expected to:

- benefit from the enlarged earnings base of the business and increased market presence in the Australian and overseas
- substitute/integrate the higher margin Emefcy technologies with RWL technologies ie. complimentary product offerings
- increased speed to market from containerised modular wastewater solutions
- be able to leverage RWL's global presence, intellectual property, customer base, global reach and insights and enhance the business of Emefcy.

As such, Emefcy Shareholders will benefit from the anticipated lower risk of the Combined Group owing to its larger scale, aligned interests, more efficient operational structure, and stronger ability to access the capital market following the Proposed Transactions.

8. Valuation methodologies

8.1. Introduction

In forming our opinion as to whether the Proposed Transactions are fair and reasonable to the Shareholders, we have valued Emefcy on a fair market value basis. Business valuers typically define fair market value as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay to the seller part, or all, of the special value that they expect to realise from the acquisition.

Our valuation has had regard to potential additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to Emefcy and RWL. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

8.2. Valuation methodologies

RG 111 sets out the valuation methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share capital returns, selective capital reductions, schemes of arrangement, takeovers and prospectuses. The following methodologies are included:

- discounted cash flow ('DCF') method and the estimated fair market value of any surplus assets
- capitalisation of future maintainable earnings ('CFME') method, capitalising the estimated future maintainable earnings or cash flows of the entity, using an appropriate earnings multiple, and adding any surplus assets
- net asset ('NA') method, being the amount available for distribution to security holders on an orderly realisation of assets
- quoted market price ('QMP') for listed securities, when there is a liquid and active market. This method is typically used as a cross check to any of the above methods
- any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets. This method is typically used as a cross check to any of the above methods.

Each of these methodologies may be appropriate in certain circumstances. The decision as to which method to apply generally depends on the nature of the business being valued, the availability of appropriate information and the methodology most commonly adopted in valuing such a business. Further details on these methodologies are set out in Appendix C to this report.

RG 111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

Due to the inherent uncertainties in the valuation process, we have determined a range of value within which we consider the fair market value of Emefcy lies. As a result of the uncertainties in the Emefcy, our range of values is wider than we would ordinarily prefer.

8.3. Methodology selected to value Emefcy

We have applied the CFME method as our primary valuation method for the valuation of Emefcy. We have used the QMP, pricings in recent capital raisings by the Company and NA method as a cross checks to our primary valuation method. In determining the appropriate methodology to value Emefcy, we have considered:

- whether the business is a going concern
- the available valuation methodologies (refer Section 8.2)
- the nature of the operations of the companies
- the actual financial performance for the financial years ended 31 December 2015 and 31 December 2016
- year to date revenue to 31 March 2017
- the quality and availability of forecast financial information.

We have selected the CFME method, using revenue as our basis of measure, as our primary valuation methodology because:

- the Company has been reporting losses to date
- the business is operating as a going concern
- the net assets of the business are not of the nature or sufficiency to support the NA method
- the Directors have not prepared robust long term financial forecasts suitable for the use in a DCF valuation in an IER
- revenue is an acceptable measure for the valuation of early stage companies[21].

We have not used the NA method as our primary methodology because this methodology generally provides a minimum value for a business. The NA method is relevant where:

- a company is making losses or profits but at a level less than the required rate of return, where it is close to liquidation
- it is a holding company
- all its assets are liquid (such as cash) or it holds significant property and plant and equipment or is considered 'asset rich'
- businesses are being segmented and divested
- assets are surplus to the core operating business.

Emefcy is in its growth phase and not yet generating profits. Therefore, the NA method would not represent the fair market value of a growing business that is a going concern.

8.4. Cross check methodologies

Quoted market price

We have used the QMP to cross check the reasonableness of our CFME method on the basis that:

- there is a relatively 'deep' market in the shares that is reflected by the liquidity and active market for the shares. Typical characteristics that are representative of a deep market may include:
  - regular trading in a company's securities - approximately 1% of a company's shares are traded on a weekly basis
  - the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of the company

[21] Chapter 10 revenue multiples NYU Stern School of Business

– there are no significant but unexplained movements in the share price.

Refer to Section 3.8 for our analysis on share price performance.

Recent capital raisings undertaken by the Company

We have considered the reasonableness of our CFME method with reference to the pricings of recent capital raisings undertaken by the Company.

NA method

We have considered the reasonableness of our CFME method with reference to the NA value of the Company.

8.5. Methodology selected to value Combined Group

As discussed in Section 1, the Proposed Transactions are to be evaluated as a control transaction where Non-Associated Shareholders will ultimately continue to hold shares in Emefcy, being the Combined Group of Emefcy and RWL.

Accordingly, whilst we have determined the value of an Emefcy share before the Proposed Transactions on a stand-alone and control basis, we have determined the value of an Emefcy share after the Proposed Transactions in the Combined Group on a minority basis. As such, we have deducted a minority interest discount from the controlling valuation to reflect a minority (portfolio) interest.

We have assessed the value of the Combined Group using the CFME method described above. Using this approach, we have determined the value of the Combined Group by:

- aggregating revenue of the Emefcy and RWL businesses
- aggregating the fair market value of any other separately valued assets and liabilities
- excluding the estimated synergies and cost savings which may arise specifically from the Proposed Transactions, as appropriate
- deducting net debt.

As a cross check to our value derived using our primary valuation methodology, we have had regard to the trading prices of Emefcy shares before and after the announcement of the Proposed Transactions. It is arguable that the share trading price of Emefcy after the announcement may reflect the market value of the shares in the Combined Group, having regard to the public release of the terms of the Proposed Transactions and subsequent approvals by FIRB, and other regulatory bodies of the Proposed Transactions.

8.6. Selection of earnings metric

The CFME method can be applied to different earnings or cash flow measures, including, but not limited to, revenue, EBITDA, EBIT and NPAT. EBITDA and EBIT multiples are commonly used in the context of control transactions where the capital structure is in the hands of the acquirer.

Revenue multiples may be used for early stage companies that are in their growth phase and where profitability is imminent. In this regard, we have selected revenue as an appropriate measure for the valuations of Emefcy and RWL.

We note that revenue is highly sensitive to different financing structures, depreciation and amortisation, accounting policies and effective tax rates compared to multiples based on EBIT or NPAT. However, revenue multiples are available for loss making companies, they are not as volatile as other earnings and can be considered to be more reliable as revenue is less susceptible to accounting manipulation.

9. Valuation of Emefcy, before the Proposed Transactions

9.1. Summary

We have valued 100% of the issued shares of Emefcy to be in the range of USD122.9 million to USD159.9 million or USD0.410 (41.0 cents) per share to USD0.533 (53.3 cents) per share, on a control basis.

Table 28: Fair market value of an issued share of Emefcy

Before Proposed Transactions		Low	High
Revenue FY18	USD	18,500,000	18,500,000
Revenue multiple	times	5.0	7.0
Enterprise value		92,500,000	129,500,000
Net cash/(debt)	USD	30,357,681	30,357,681
Equity value - control basis	USD	**122,857,681**	**159,857,681**
Number of shares on issue		299,743,997	299,743,997
Fair market value per share (before the Proposed Transactions) – control basis	USD/share	**0.410**	**0.533**

Source: PPB analysis

The valuation of Emefcy was determined using a CFME method, based on maintainable revenue and a capitalisation multiple in the range of 5.0 times to 7.0 times. The basis for each of these assumptions is discussed in the sections below.

9.2. Maintainable revenue

We have assessed maintainable revenue, USD18.5 million.

FME represents the level of revenue that the business can sustainably generate in the future. In making this assessment, we have had regard to the following:

- recent financial performance (losses) of the business.
- stage of development of the Company, being early stage
- FY17 and FY18 forecast revenue, and the significant market opportunity presented in China (refer section 3.13)
- Management is expecting Emefcy to breakeven in FY18/FY19
- outlook for the water treatment technology at the Valuation Date, based on our review of the industry
- the operations and prospects of Emefcy
- the revenue and earnings profile, including risk factors
- operational insights provided by Management
- non-recurring items such as acquisition, restructuring and impairment costs.

We have held discussions with Management of Emefcy regarding the expectations for FY17, FY18 and financial performance to date. Although Emefcy has provided high level earnings guidance to investors for FY17, it has not formally released a FY17 forecast to the market. Management has advised that Emefcy is on track to achieve the revenue growth stated in section 3.13 and therefore we have given more weighting to Emefcy's FY18 revenue expectations in our valuation.

There are a number of factors that indicate potential upside, including higher growth potential as discussed in Section 5. There are also a number of risk factors that are discussed in the Notice of Meeting and Explanatory Memorandum.

Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We have not adjusted our valuation for synergies or cost savings available to any potential acquirer of 100% of the Company. Management does not expect there to be capacity to cut further costs to any material extent.

9.3. Capitalisation multiple

We have selected a revenue multiple in the range of 5.0 times and 7.0 times.

The capitalisation multiple applied in a CFME should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, we considered:

- market evidence derived from potentially comparable listed companies
- recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued
- key operational characteristics of Emefcy.

Share market evidence

In selecting a revenue multiple for Emefcy, we have considered revenue multiples derived from share market prices of listed companies with comparable operations to Emefcy's businesses, especially those that are of a similar size and also loss making.

We have been unable to identify any companies listed on the ASX with operations that are directly comparable to Emefcy. As a result, we have expanded our search to include listed companies that operate overseas that are subject to similar risk factors to Emefcy. We have also identified a number of internationally listed companies with operations in the broader water treatment industry, that focus on other markets such as oil and gas. Our analysis is summarised in the following table.

A detailed analysis of the comparable companies is set out in Appendix D.

Table 29: Summary of potentially comparable listed company multiples

Company Name	Enterprise value at 31/03/17 *USD million*	Revenue LTM *USD million*	Revenue growth FY16 *%*	Revenue multiple LTM *times*
Emefcy Group	218.5	0.8	100.0%	275.7
International companies (loss making EBITDA)				
Hydrotek Public Company Limited	21.2	9.8	(44.3)%	2.2
MyCelx Technologies Corporation	6.2	5.6	0.1%	1.1
Modern Water plc	5.3	3.3	12.3%	1.6
Clearford Water Systems Inc.	23.5	2.6	(2.5)%	9.1
Beyond Time Holdings Ltd	4.9	0.4	(3.3)%	12.1
ENPAR Technologies Inc.	7.6	0.3	102.1%	22.3
Average	**11.5**	**3.7**	**10.7%**	**8.1**
Median	**6.9**	**3.0**	**(1.2)%**	**5.6**
International companies (all companies)				
Average	**3,460.2**	**520.8**	**11.7%**	**8.2**
Median	**755.8**	**91.3**	**2.7%**	**7.6**

Source: S&P Capital IQ and PPB analysis

Notes:

1. *Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash*
2. *Control premium of 30% has been applied to market capitalisation to calculate the multiples above*
3. *LTM = last twelve months*
4. *Emefcy figures have not been included in the calculations of average and median*

We make the following comments with respect to our comparable trading analysis:

- Emefcy's revenue increase in FY16 by 100%, due to its first year of sales. Therefore this is not comparable to the average increase of our potentially comparable ASX listed companies of 11.7%.
- The potentially comparable listed companies include water utility companies with much larger and potentially more diversified operations. These companies typically trade at higher multiples than smaller, less diversified companies.
- Emefcy has historically generated EBITDA losses and therefore we have focused on loss making EBITDA potentially comparable companies.

The average multiples of potentially comparable international listed companies are higher than our selected range, most likely because many of them are larger and more diversified.

Control premium analysis

When valuing Emefcy on a control basis using market information, it is necessary to apply a control premium to the trading multiples of the potentially comparable listed companies. This is because the share trading price of these companies is based on transactions involving minority parcels of shares. When acquiring a majority interest in a company, an acquirer is typically willing to pay a premium above the minority trading price of the shares in order to obtain control over the operations and management of the company. The quantum of this premium will vary dependent on the specific circumstances of each transaction, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

We consider it appropriate to apply a control premium to the trading price of our potentially comparable listed companies of 30%, based on our analysis of premiums observed in successful takeovers in Australia since 1 January 2012. Our analysis is included in Appendix F and summarised in Table 30.

Table 30: Control premium analysis

Transactions analysed	185
Period analysed	1 May 2012 to 2 May 2017
Average control premium	35%
Median control premium	30%
Bottom quartile	13%
Top quartile	47%

Source: PPB analysis

Potentially comparable transaction multiples

In selecting a capitalisation multiple for Emefcy, we have also considered the implied multiples paid to acquire companies with operations comparable to Emefcy. The price paid in transactions is widely considered to represent the market value of a controlling interest in the target company (ie the prices include a control premium).

Table 31 summarises our analysis of the revenue multiples implied from our potentially comparable transactions analysis. A detailed analysis of these comparable companies is set out in Appendix D. We have only included transactions in our analysis where sufficient financial data is available to enable a revenue multiple to be observed.

Table 31: Summary of potentially comparable transactions since 2014

	Implied enterprise Value AUD million	Transaction value AUD million	Implied Revenue multiple times
Australian and international companies			
Average	1,534	44,563	1.9x
Median	29	109	0.7x
Low	1.5	1.5	0.2x
High	604,890	604,890	7.8x

Source: S&P Capital IQ and PPB analysis

Whilst the products and services provided by the target companies are broadly comparable to Emefcy's business operations, in assessing the comparability of the implied multiples it is necessary to consider the particular attributes of the target companies and the specific circumstances surrounding each transaction, including:

- our analysis includes 17 potentially comparable transactions. There was a wide range of revenue multiples observed of between 0.2 times to 7.8 times
- there is a clear correlation between the size of the target company and the implied Revenue multiple. The average EBITDA multiple of seven transactions greater than AUD2 billion was 4.4 times, compared to an average EBITDA multiple for 10 transactions less than AUD250 million of 0.7 times.

We note that the transaction multiples included in our analysis are likely to include synergistic value. In accordance with RG 111, we have not included the value of synergies or special benefits in our selected multiple.

Key operational characteristics of Emefcy

In addition to our analysis of potentially comparable listed companies and transactions, we have also had regard to the key operational characteristics in our selection of an appropriate capitalisation multiple for Emefcy, including (but not limited to) the following:

- the increasing scarcity of water, especially in the developing world
- the increasing focus of governments, such as China to improve water quality and provide safe water for populations
- Emefcy's track record in developing and commercialising its IP
- Emefcy's lack of earnings until at least FY18.

9.4. Surplus assets

Emefcy had no surplus assets at the Valuation Date[22].

9.5. Net cash

Emefcy's net cash position at Valuation Date is USD20.3 million, plus a USD10.0 million notional adjustment for the exercise of options on issue.

[22] Source: Emefcy 31 December 2016 annual report

9.6. Number of shares on issue

Emefcy had 257.051 million shares on issue as at Valuation Date. Refer to Section 3.6.

In addition, there were:

- 20.19 million options on issue as at 31 March 2017, held by employees, directors and vendors of Emefcy Limited in the transaction in October 2015
- 22.50 million second milestone shares being deferred consideration for Emefcy Limited in the transaction in October 2015. Refer to the Company's annual accounts for 31 December 2016 for further information.

We have assumed based on Emefcy's recent performance and our review of the 31 December 2016 annual financial report that these and options will vest and they have been included our valuation analysis.

9.7. Valuation cross check

We have cross checked the primary valuation methodology by analysing recent capital raisings undertaken by Emefcy and trading prices of Emefcy shares. Refer to Section 3.8 for the share trading to 31 March 2017.

Analysis of recent capital raisings

The pricing of the recent capital raisings support our assessed value of an issued share of Emefcy of USD0.410 (41.0 cents) to USD0.533 (53.3 cents) per share, on a control basis, derived using our primary valuation methodology.

Table 32: Summary capital raisings

Date	Details	USD per share
1 October 2015	Savcor transaction	0.20
25 July 2016	Private placement	0.45
15 May 2017	Private placement[23]	0.63

Source: Emefcy ASX announcements

Analysis of trading price of Emefcy shares

In assessing the share price at which an Emefcy share may trade in the absence of the Proposed Transactions, we have considered the following:

- the closing price on the last trading day prior to the Valuation Date was AUD0.850 (85.0 cents) or USD0.648[24] (64.8 cents)
- trading prices for Shares in Emefcy were positively impacted by the release of information on the China strategy, project pipeline and strategic alliances/partners. Before 31 March 2017, Emefcy shares have traded at between AUD0.218 (21.8 cents) and AUD0.335 (33.5 cents) or USD0.163 (16.3 cents) and or USD0.25 (25.1 cents)
- average 12 month VWAP of AUD0.784 (74.8 cents) or USD0.588 (58.8 cents)
- the VWAPs of Emefcy shares calculated over a 1, 5, 10, 15, 20, 30 day, 6 months and 1 year period prior to the Valuation Date are summarised in Table 33
- the volume of Emefcy shares traded is limited with the cumulative volume of shares traded in the 30 days prior to the Valuation Date representing only 2% of total issued shares.

[23] USD0.63, calculated based on a share price of AUD0.85 and a AUD/USD exchange rate of 0.74
[24] Calculated at 31 March 2015 at AUD:USD 0.76

Table 33: Emefcy's VWAP up to 31 March 2017 – AUD

Trading period to 31-Mar-17	VWAP AUD	High price AUD	Low price AUD	Cumulative volume traded	% of issued shares (free float)
1 day	0.8444	0.8600	0.8600	311,560	0.2%
5 day	0.8439	0.8700	0.8350	2,055,250	1.0%
10 day	0.8400	0.8700	0.8350	3,230,600	1.6%
15 day	0.8367	0.8700	0.8250	4,645,990	2.3%
20 day	0.8282	0.8700	0.7800	5,672,720	2.8%
30 day	0.8106	0.8700	0.7500	7,996,560	3.9%
6 months	0.9027	1.1800	0.7300	71,108,830	34.8%
1 year	0.7843	1.1800	0.3400	181,297,380	97.0%

Source: S&P Capital IQ, PPB analysis

Share prices of listed companies typically reflect the price of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control. Therefore, as a high-level crosscheck, we calculated the implied control premium by comparing our control value for Emefcy to the VWAPs of an Emefcy traded share leading up to the announcement date, summarised in Table 34.

Table 34: Comparison of assessed fair market value with Emefcy share price on a control basis

	USD Low	USD High
PPB assessed fair market value range	0.410	0.533

Table 35: Emefcy's VWAP up to 31 March 2017 – USD

Trading period to 31-Mar-17	VWAP USD	High price US	Low price USD	Cumulative volume traded	% of issued shares (free float)
1 day	0.6333	0.6450	0.6450	311,560	0.2%
5 day	0.6329	0.6525	0.6263	2,055,250	1.0%
10 day	0.6300	0.6525	0.6263	3,230,600	1.6%
15 day	0.6275	0.6525	0.6188	4,645,990	2.3%
20 day	0.6212	0.6525	0.5850	5,672,720	2.8%
30 day	0.6079	0.6525	0.5625	7,996,560	3.9%
6 months	0.6770	0.8850	0.5475	71,108,830	34.8%
1 year	0.5882	0.8850	0.2550	181,297,380	97.0%

Source: S&P Capital IQ PPB analysis

Our VWAP analysis is higher than our assessed value of an issued share of Emefcy. This is most likely due to the numerous and regular announcements to the market, since July 2016, made by the Company of Emefcy signing strategic alliance / partnership agreements to commission and deploy water treatment plants in China and the investor roadshows. It appears that the share price already recognises the benefits of these strategic alliance / partnership agreements, short of bringing the relevant expertise in-house as anticipated through the Proposed Transactions.

Therefore, we are of the opinion that the share price of Emefcy largely reflects the benefits of the Proposed Transactions. We note that, at the Valuation Date, the Proposed Transactions had not been announced to the market, therefore, technically the share price should not reflect the impact of the Proposed Transactions on the Company.

Analysis net assets cross check

We have assessed Emefcy's net asset value as at 31 December 2016 (we understand the balance sheet position has not moved materially during the three months to Valuation Date) to be 7.2 cents per share. Our analysis is summarised in Table 36.

Table 36: Net asset value as at 31 December 2016

	USD
Reported net assets at 31 December 2016	24,064
Adjustments:	
Less: Intangibles and goodwill	(2,134)
Adjusted net tangible assets	**21,930**
Shares outstanding	299,743,997
USD/share	**0.072**
Implied net asset multiple to PPB equity value	
Low	5.6
High	7.3

Source: Emefcy FY16 annual report and PPB analysis, S&P Capital IQ, Management

The NA per share of USD0.072 cents is below our assessed valuation range of USD0.410 (41.0 cents) to USD0.533 (53.3 cents) per share, on a control basis. The net asset valuation methodology typically provides a minimum value for a going concern business, however, for the reasons stated previously ie. ASX announcements this is lower than our assessed valuation range.

10. Valuation of Combined Group, after the Proposed Transactions

10.1. Summary

By approving the Proposed Transactions, the Non-Associated Shareholders will ultimately hold a non-controlling interest in the Combined Group. Accordingly, we have valued the shares of the Combined Group on a minority basis. Based on our assessment, Table 37 shows the Combined Group equity value range is between USD210.0 million to USD293.4 million or USD0.487 (48.7 cents) to USD0.681 (68.1 cents) per share.

Table 37: Summary valuation - After Proposed Transactions

After Proposed Transactions		Low	High
Revenue FY17/FY18	USD	108,500,000	108,500,000
Revenue multiple	times	2.0	3.0
Enterprise value		217,000,000	325,500,000
Net cash/(debt)	USD	35,940,311	35,940,311
Cash from Share Placement	USD	20,000,000	20,000,000
Equity value - Control basis	USD	**272,940,311**	**381,440,311**
Discount for minority interest		23.1%	23.1%
Equity value - Minority basis		**209,954,085**	**293,415,624**
Number of shares - fully diluted		*431,086,062*	*431,086,062*
Fair market value per share (after Proposed Transactions) - Control basis	USD/share	**0.633**	**0.885**
Fair market value per share (after Proposed Transactions) - Minority basis	USD/share	**0.487**	**0.681**

Source: PPB analysis

Consistent with the standalone valuations of Emefcy (detailed in Section 9), the valuation of the Combined Group was determined using the CFME method, based on maintainable revenue and a capitalisation multiple of 2.0 times to 3.0 times.

The enterprise values have been determined on a going concern basis and include a premium for control. To obtain the equity value of the Combined Group on a minority basis we have applied a minority discount of 23.1%, which is the inverse of our selected control premium of 30%[25]. Our analysis is based on the inputs described below.

10.2. Maintainable revenue

We have assessed maintainable revenue to be USD108.5 million. This is based on FY18 Emefcy revenue of USD18.5 million (refer section 3.13) and FY17 RWL revenue of USD90.0 million (refer section 4.8).

FME represents the level of revenue that the business can sustainably generate in the future. In making this assessment, we have had regard to the following:

- recent financial performance of the Combined Group.
- the material revenue growth forecast for FY17. Noting RWL has locked in approximately 71% of its forecast budget for FY17 (refer section 4.8), which represents the majority of Combined Group revenue forecast for FY17.
- relatively strong revenue pipeline ie. opportunities which have been identified but not yet been won
- Management are expecting Emefcy to breakeven in FY18/FY19

[25] Minority interest discount has been calculated as follows: 1 – [1 / (1 + 30% control premium)]

- outlook for the water treatment technology at the Valuation Date, based on our review of the industry
- the operations and prospects of Emefcy and RWL
- the revenue and earnings profile, including risk factors
- operational insights provided by Management
- non-recurring items such as acquisition, restructuring and impairment costs (refer section 7.10).

There are a number of factors that indicate potential upside, including higher growth potential as discussed in Section 5. There are also a number of risk factors that are discussed in the Notice of Meeting and Explanatory Memorandum.

Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

10.3. Capitalisation multiple

We have selected a revenue multiple in the range of 2.0 times and 3.0 times.

The capitalisation multiple applied in a CFME should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

We selected a revenue multiple for Emefcy prior to the Proposed Transaction of between 5.0 times and 7.0 times and a reduced multiple after the Proposed Transaction of 2.0 times and 3.0 times. The reduced multiple reflects the following:

- key operational characteristics of Emefcy and RWL. Emefcy is akin to an IP company and RWL is closer aligned to an engineering company
- Emefcy is integrating with a private company and therefore some risks exist regarding potential lack of data, lack of certainty/transparency of data, lower governance and reporting standards
- significant change in business operations scale (larger) and extent of increase in revenue
- lower multiple due to reliance on Emefcy FY18 forecast revenue versus comparable companies FY17 forecast multiples.

Share market evidence

In selecting a revenue multiple for Emefcy, we have considered revenue multiples derived from share market prices of listed companies with comparable operations to the Combined Group, especially those that are of a similar size and also loss making.

We have been unable to identify any companies listed on the ASX with operations that are directly comparable to the Combined Group. As a result, we have expanded our search to include listed companies that operate overseas that are subject to similar risk factors to the Combined Group. We have also identified a number of internationally listed companies with operations in the broader water treatment industry, that focus on other markets such as oil and gas.

A detailed analysis of these comparable companies is set out in section 9.3 and Appendix D.

10.4. Surplus assets

We have not identified any surplus assets of the Combined Group following the Proposed Transactions, other than those which are expected to arise from the duplication of assets. Any surplus assets that arise from duplication of assets are considered to be synergistic benefits and have not been taken into account in our valuation, in accordance with the requirements of RG 111.

10.5. Net cash

The pro forma cash of the Combined Group after completion of the Proposed Transactions is USD55.9 million, as summarised in Table 38.

Table 38: Pro forma cash of Combined Group

	USD
Cash and equivalents	25,900,630
Cash from exercise of options (notional)	10,039,681
Cash from share placement	20,000,000
Pro forma cash of Combined Group	**55,940,311**

Source: Management

The above pro-forma cash relates to the 31 March 2017 cash and cash equivalents position, plus the anticipated USD20 million from the Share Placement and notional adjustment for the exercise of options on issue. There are no borrowings expected after the Proposed Transactions (although there are borrowings of approximately USD1.9 million as at 31 March 2017). Any borrowings will be extinguished prior to the execution date of the Proposed Transactions. No other debt exists at Valuation Debt.

10.6. Number of Shares on issue

Following completion of the Proposed Transaction there will be 431.1 million shares on issue. The ownership of existing Emefcy Shareholders is diluted to 69.5% of total shares on issue in the Combined Group, as summarised in Table 39.

Table 39: Shares on issue after the Proposed Transactions

	Number of shares	% interest
Ordinary shares on issue	257,051,054	59.6%
Issued options	20,192,943	4.7%
Second Milestone shares[1]	22,500,000	5.2%
Fully diluted shares before the Proposed Transactions	**299,743,997**	**69.5%**
Proposed Acquisition	100,500,000	23.3%
Share Placement	30,842,065	7.2%
Fully diluted shares after the Proposed Transactions	**431,086,062**	**100.0%**

Note: Second Milestone shares have not been issued, however, the Directors are reasonably satisfied that they will be issued. Refer to section 3.5 for further details.
Source: Management, Notice of Meeting, PPB Analysis

10.7. Minority interest discount

Our valuation of an issued share in Emefcy before the Proposed Transactions has been undertaken on a control basis, and our valuation of an issued share in Emefcy after the Proposed Transactions has been undertaken on a minority interest basis, consistent with the requirements of RG 111.

The revenue multiples we have applied in our analysis are on a control basis. To obtain the equity value of the Combined Group on a minority basis we have applied a minority discount of 23.1%. Our selected minority discount is the inverse of our selected control premium of 30%[26], as discussed in Section 10.1 and Appendix F.

[26] Minority interest discount has been calculated as follows: 1 – [1 / (1 + 30% control premium)]

10.8. Valuation cross check

We have cross checked the primary valuation methodology by analysing the trading prices of Emefcy shares after the announcement of the Proposed Transactions. Refer to Section 3.9 for the share trading after the announcement of the Proposed Transactions.

Table 40 summarises Emefcy's VWAP after announcement of the Proposed Transactions.

We have assessed the fair market value of an issued share in Emefcy after the Proposed Transactions, on a minority interest and fully diluted basis, to be in the range of USD0.487 (48.7 cents)/AUD0.638 (63.8 cents) to USD0.681 (68.1 cents)/AUD0.892 (89.2 cents).

Table 40: VWAP analysis after announcement date 5 May 2017

Trading period to 31-Mar-17	VWAP AUD	High price AUD	Low price AUD	Cumulative volume traded	% of issued shares ('free float')
1 day	0.9353	0.9750	0.8550	1,447,810	0.7%
5 day	0.9309	1.0000	0.8550	4,495,960	2.2%
10 day	0.9213	1.0000	0.8550	5,841,240	2.8%
13 day	0.9077	1.0000	0.8150	7,672,950	3.7%

Source: S&P Capital IQ

Notes:

1. *The Proposed Transactions were announced on 5 May 2017*
2. *% of free float shares: estimated assuming 80% of issues shares are free float (80% estimated using ASX share notifications dated 13 April 2016 and 10 April 2017).*

Our VWAP analysis is higher than our assessed value of an issued share of Emefcy after the Proposed Transactions. This is most likely due to our valuation being based on directors' forecasts, that have not been released to the market, and our valuation being undertaken on a fully diluted basis, incorporating the issue of shares under the Proposed Transactions and the respective receipt of cash under the Share Placement.

In the absence of earnings guidance provided to the market to date, the share price appears to assume the benefits of the announced strategic alliance / partnership agreements and the Proposed Transactions.

We are of the opinion that the share price of Emefcy after the announcement of the Proposed Transactions fully reflects the benefits of the Proposed Transactions.

Refer to Section 9.7 for our full analysis of Emefcy's share trading price before and after the announcement of the Proposed Transactions.

11. Assessment of the Proposed Transactions

11.1. Conclusion

Based on our analysis, as set out above, PPB is of the opinion that, in the absence of a superior offer, and on the basis that a Non-Associated Shareholder, the Proposed Transactions are 'fair' and 'reasonable' to Non-Associated Shareholders, as a whole.

There are compelling reasons for Shareholders to approve the Proposed Transactions as they will be clearly better off if the Proposed Transactions proceed.

Emefcy is in its growth phase and is currently experiencing significant monthly cash burn of approximately USD1.2 million per month. This puts continual pressure on the Directors to continually source funding, that to date has been primarily equity funding. Emefcy requires a substantial additional capital if it is to successfully commercialise its technology. This will occur if the Proposed Transactions proceed.

11.2. Approach

Fairness

The Proposed Transactions will be fair to Shareholders if the fair market value of an issued share after the Proposed Transactions (on a minority interest basis) is equal to or greater than the fair market value of an issued share before the Proposed Transactions (on a control basis).

Therefore, for the purpose of assessing the fairness of the Proposed Transactions, we have assessed and compared the fair market value of an issued share in Emefcy:

- before the Proposed Transactions, on a controlling interest basis
- after the Proposed Transactions, on a minority interest basis.

In accordance with RG 111, we are required to assess the fairness of the Proposed Transaction.

Reasonableness

In assessing the reasonableness of the Proposed Transactions, we considered the advantages and disadvantages of the Proposed Transactions proceeding as well as any other factors that we identified. We have also considered the:

- existence of any premium for control
- likelihood of an alternative superior offer being made to the Shareholders.
- alternatives available to the Shareholders.

11.3. The Proposed Transaction is fair

We have assessed whether the Proposed Transactions are fair by comparing our valuation of a share in Emefcy before the Proposed Transactions, on a controlling basis, to the value of a share in Emefcy after the Proposed Transactions on a minority interest basis.

Our fairness assessment indicates that the fair market value of an issued share after the Proposed Transactions, on a Pro forma Number of Shares, is within the fair market value of an issued share before the Proposed Transactions.

Significant uncertainty exists in our valuation assessment, because Emefcy is in its early stage of development and its value is likely to shift, perhaps materially, depending on the outcome of product development and commercialisation. For this reason, our valuation range is relatively wide. In addition, the Company has only recently entered the China market and this represents a significant opportunity. The Company been regularly making ASX announcements on its China strategy, partnerships and alliances. These may to some extent be reflected in the current share trading price of Emefcy.

Shareholders will continue to hold their shares by virtue of the Proposed Transactions. However, Shareholders interests, excluding the RSL, will be diluted from 100% to 69.5% of the total issued shares of the Company.

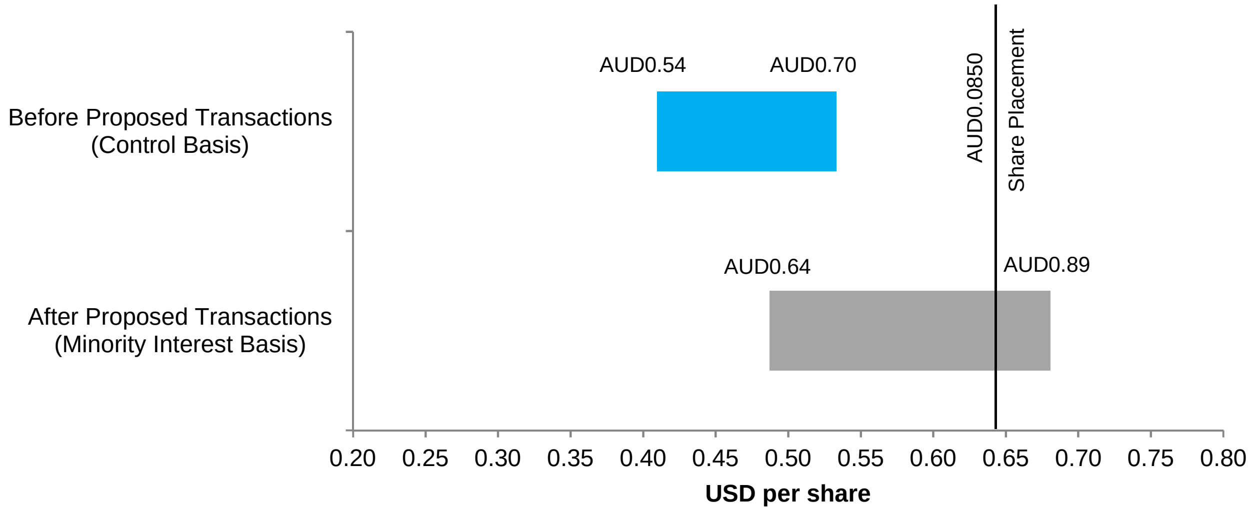
We have assessed the fair market value of an issued share in Emefcy:

- before the Proposed Transactions, on a control basis, to be in the range of USD0.410 (41.0 cents)/ AUD0.537 (53.7 cents) to USD0.533 (53.3 cents)/AUD0.699 (69.9 cents)
- after the Proposed Transactions, on a minority interest and fully diluted basis, to be in the range of USD0.487 (48.7 cents)/AUD0.638 (63.8 cents) to USD0.681 (68.1 cents)/AUD0.892 (89.2 cents).

Comparison of value before the Proposed Transactions is on a control basis and after the Proposed Transactions is on a minority interest basis.

A summary of our fairness assessment is set out Section 11

Figure 11: Fairness summary – Proposed Transactions



Source: PPB Analysis
The Share Placement is at AUD0.850 (USD0.648) per share

Our assessed fair market value of an issued share after the Proposed Transactions is within the range of the fair market value of an issued share before the Proposed Transactions and the issue price for the Share Placement of USD0.648[27] is within our range of values. Therefore, we have determined that the Proposed Transactions are fair to Non-Associated Shareholders, according to RG 111.

RG 111 states that the Proposed Transactions should be assessed on the basis that Emefcy is subject to a change of control transaction. This reflects the possibility that Shareholders, in approving the Proposed Transactions, may give up the opportunity to realise a control premium.

Our assessment involves comparison of the underlying value with the 'Consideration' to be received by Shareholders, where that consideration is deemed to be shares in Emefcy after the Proposed Transactions. For the purposes of the comparison, we have valued the shares after the Proposed Transactions on a minority interest basis[28] (trading value) and compared it to the value of the shares before the Proposed Transactions on a control basis. We acknowledge that the level of trading liquidity in Emefcy shares and market conditions relevant to Emefcy may prevent Emefcy shares from trading in our estimated valuation range.

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[27] At 31 March 2017, AUD0.850 converted at AUD:USD 0.76
[28] The discount applied is the inverse of the control premium commonly paid in takeovers. We have assessed control premiums to be in the range of 25% to 30%.

We have applied a control premium of 30%[29] in our analysis, however a control premium effectively represents the outcome of pricing decisions in change of control transactions. The trading price of Emefcy shares on the ASX will not incorporate a control premium, in the absence of any takeover offer.

We have assessed the value of the shares after the Proposed Transactions using the market approach, based on a revenue multiple method. We have not included the value of potential synergies arising from the acquisition of RWL. RG 111.11 states that any special value of the 'target' to a particular 'bidder' (eg synergies that are not available to other bidders) should not be taken into account.

We have taken the dilution effects of exercising outstanding options that are currently in the money, into account in our calculations.

The issue price of the Share Placement is based on USD0.648 (AUD0.850) as shown in Figure 11, above.

Although the trading in the Emefcy shares are considered liquid, the issue of shares at a discount to the market before the announcement date suggests that no control premium has been offered.

The Lock-Up, that forms part of the Proposed Transactions, gives Emefcy a relevant interest of 23.3% of the shares on issue after the Proposed Transactions. The relevant interest is for a period of two years after completion of the Proposed Transactions and relates only to the trading of the shares and not any other rights attached to the shares including the voting rights. As such, we consider that the impact on Non-Associated Shareholders is not material.

11.4. The Proposed Transactions are reasonable

We have summarised below some of the relevant factors associated with the Proposed Transactions. In assessing the reasonableness of the Proposed Transactions, we have considered the potential advantages and disadvantages to the Non-Associated Shareholders and considered whether the advantages outweigh the disadvantages in the context of the Proposed Transactions. Individual Shareholders may interpret these factors differently, depending on their circumstances.

We have assessed that the advantages and disadvantages of rejecting the Proposed Transactions are the inverse of accepting the Proposed Transactions.

The potential advantages and disadvantages to Non-Associated Shareholders arising from the approval of the Proposed Transactions are summarised below.

Advantages

Cash injection

The Share Placement will provide the Company with a significant cash injection of USD20 million to use to fund product development and commercialisation and revenue growth.

Cornerstone investor

As a result of the Proposed Transactions, Mr Lauder (through RSL) will control 30.5% of the issued shares of the Combined Group. Mr Lauder's interests will become aligned with the Company's and he will have a significant incentive to ensure the long-term success of the Combined Group. Mr Lauder has already invested USD147.9 million in RWL to date and has further significant financial capacity to support the Combined Group. Non-Associated Shareholders may benefit through increased value of the Company's shares and market capitalisation. This is an important consideration for Non-Associated Shareholders, as committed cornerstone investors are not readily available to emerging companies.

Cornerstone investors provide stability in meeting future funding requirements and provide an important signal to the market. Mr Lauder, a well-known individual globally, will endorse Emefcy's strategy to the market.

[29] Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F.

Increased scale and diversification

The Proposed Transactions present significant opportunity to strategically expand and leverage the Company's existing wastewater treatment business and invest a greater diversity of products and services that is expected to increase the value of the Company's shares and market capitalisation.

In addition, the Combined Group will have the scale and financial strength to accelerate its growth. In FY16, the RWL's revenue was USD60.9 million, which represents a 7,689% increase on the Company's FY16 revenue of USD0.8 million. We note, however, that the Combined Group will not be profitable until FY19.

Access to engineering expertise

RWL has developed engineering expertise for design, production, procurement and deploying scalable water treatment solutions which, in particular, incorporate adapted shipping containers. This will enable the Combined Group offer its strategic distribution partners a diverse range of solutions, including easy-to-ship-and-install modular solutions, packaged or kitted plants, or fully containerised plug-and-play plants.

These solutions are scalable and will offer the flexibility to meet varying requirements for waste water treatment in remote places, thereby increasing the Combined Group's ability to capture additional market share in jurisdictions with significant market opportunity.

Global presence

The Combined Group will have staff of more than 350 increased from 50 (Emefcy's) and will be able to offer its customers full waste recycling services globally. They will also be able to cross-sell and up-sell through the Company's existing customers and RWL's existing customers.

Focus of management

Management will be able to focus on the strategic plans of the Company rather than raising capital. Although, they have not been neglected, approval of the Proposed Transactions will ensure that funding matters will not require intensive management focus.

Experienced management team

RWL has an experienced management team that will add complimentary skills and depth to Emefcy's management team. RWL management have the experience in building water treatment systems and processes.

Market reputation

RWL has been operating for more than 15 years and has successfully delivered water treatment solutions in multiple locations and generated approximately USD61 million in revenue during FY16. RWL will assist the Combined Group service customers, including distribution partners.

Continue as a Shareholder

Shareholders will continue to hold their shares in Emefcy.

Cost synergies with the acquisition of RWL

The Directors believe potential synergies, that have not yet been quantified, will be achieved in the medium to long term following the acquisition of RWL, mainly as a result of the increase in scale and improved integration/efficiency.

Support of Emefcy's major Shareholders

Emefcy's significant Shareholders, holding 33% indicated their support for the Proposed Transactions.

Recommendation of Directors

In the Explanatory Memorandum, the Directors state that they recommend the Proposed Transactions.

Alternative options

The Directors have advised that the Proposed Transactions are the only options currently available to Emefcy. We have been advised that there are no other offers or transactions that the Directors have considered or are considering.

Disadvantages

RSL will be acquiring a significant interest without paying a control premium

RSL will 'acquire' 30.5% of the issued shares of the Combined Group. The issue prices of the shares under the Proposed Acquisition and the Share Placement are at USD0.648 per share. Based on our assessment, these shares are issued the closing price at 31 March 2017 of USD0.648[30] per share. Therefore, no premium for control is being paid.

It is common that acquirers of controlling interests in a business should pay a premium over the value implied by the trading price of a share, to reflect their ability to obtain control over the targets strategy and operations, as well as extract synergies from the integration. However, the level of premium observed in takeovers varies and depends largely on the circumstances of the target, competitive tension in the sale process and the level of synergies available. Observations from transaction evidence indicates that these premiums are typically between 25% and 35%[31] (refer Appendix G).

It is not uncommon for transactions involving emerging companies to be completed at a discount, particularly where the subject company is still in its growth phase and reporting losses.

Dilution

Non-Associated Shareholders' interests will be diluted from 100% to 69.5% after the Proposed Transactions, on a fully diluted basis, as RSL may have an interest of up to:

- 23.3% of the issued shares after the Proposed Acquisition
- 7.2% of the issued shares after the Share Placement

The Proposed Transactions will dilute Non-Associated Shareholder's' interests in the Company, which diminishes their ability to influence the strategic direction of the Company, including acceptance or rejection of future takeover or merger proposals.

As a result of the Proposed Transactions, RSL will hold a blocking stake which potentially diminishes the prospects of Non-Associated Shareholders receiving an offer for their shares in Emefcy in the future.

Significant influence by RSL

RSL may hold up to 30.5% of the total issued shares in the Company and may be in a position to influence the decisions made by the Company, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters requiring Shareholder approval including matters pertaining to a potential change of control in the Company.

Change in operating activities

By virtue of the acquisition of RWL, the nature of the operating activities of Emefcy will change materially, mostly in scale. Shareholders that sought to invest in the equity of Emefcy due to its specific risk profile and exposures may need to re-evaluate their investment in Emefcy due to the changes in exposures presented by Emefcy after the Proposed Transactions.

Less attractive takeover target

If the Proposed Transactions proceed, RSL's interest in the Company of 30.5% is likely to mean that its support for any proposal to acquire the Combined Group will be important for that proposal to be successful. It is, therefore, possible that RSL as a substantial shareholder in the Combined Group may be perceived by the market as reducing the likelihood of a takeover of the Combined Group. This may potentially cause the shares to trade at a discount to the value at which they would trade if RSL did not hold its interest in the Company.

[30] Converted at AUD/USD 0.76 and the basis for the calculation of the Consideration
[31] Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F.

Diversion of management resources from core operations

Managements' focus may possibly be directed towards the implementation of the Proposed Transactions and away from the day to day operations of Emefcy.

In addition, the level of business activity in the Combined Group following the Proposed Transactions may stretch existing management resources, which may delay realisation of revenue and cost synergies.

No alternatives

If the Proposed Acquisition is not approved, the Share Placement will not proceed and there is a significant risk that the Company may be unable to source replacement funding for the USD20 million. The current cash burn of the Company is approximately USD1.2 million per month, which means that the existing funding will last approximately 17 months (ie. 31 August 2018).

If the Proposed Transactions are not approved, the share price of Emefcy may fall below the current share price of AUD0.850 per share on 31 March 2017.

RWL's liabilities

On completion, the liabilities of RWL will become liabilities of the Combined Group, including legal, tax, environmental and regulatory liabilities for which the Company may not be indemnified (or adequately indemnified).

The SPA contains a number of representations, warranties and indemnities in favour of the Company. While the Company can bring a claim against the RSL based on indemnities and warranties given in favour of the Company, the maximum recourse the Company can have is limited to the Consideration. Because the Company's remedy for any breach of general business warranties in respect of RWL will be limited to a reduction in the number of Holdback shares it will be required to issue, the Company will not receive any cash amounts from the RSL to cover any liabilities incurred as a result of the Proposed Transactions.

Pricing of the Share Placement

The issue price of the Share Placement of AUD0.850 per share[32] is consistent with the closing share price of AUD0.850[33] (USD0.648) on 31 March 2017 and a discount of 5% and a premium of 33% (average premium 11%) to our assessed value of Emefcy after the Proposed Transactions.

Risks associated with the Proposed Transactions

There are a number of risk factors associated with the Proposed Transactions and some of those risk factors are outlined in Section 4.3 of the Explanatory Memorandum. If the Proposed Transactions proceed, Shareholders will become exposed to additional risks specific to the Combined Group.

11.5. Other factors

If the Proposed Transactions are not approved:

- the share price of Emefcy may not rise from the current trading price because the anticipated benefits of the Proposed Transaction will not be available and currently no other acquisition opportunities.
- the Company will continue to focus on its strategy, however with RWL as a strategic alliance partner. On this basis, many of the advantages listed above would fall away.

The Directors have advised that the legal and professional adviser fees of approximately USD2.3 million to USD2.5 million will be borne by the Company. If the Proposed Transactions do not proceed, Shareholders will not benefit from any potential upside.

[32] The issue price of the Share Placement of USD0.648 per share is based on the implied transaction equity value and issue price as defined in the Explanatory Memorandum

[33] USD0.648 based on an exchange rate of AUD:USD of 0.76

The Proposed Transactions are, in the view of the Directors, the most beneficial to Shareholders of the Company.

The resolutions relating to the Proposed Transactions in the Explanatory Memorandum and Notice of Meeting are inter-dependent.

Alternatives

The Directors have advised that they have no other alternative offers other than the Proposed Transactions.

The Proposed Transactions are, in the view the Directors, the most beneficial to Shareholders in the Company's current circumstances.

At the date of the report, there were no superior alternatives available to the Directors.

As stated in the Explanatory Memorandum, the Proposed Transactions are, in the view of most the Directors, the most beneficial to Shareholders in the Company's current circumstances.

11.6. Any premium for control

In accordance with RG 11.43, we considered whether any aspect of the Proposed Transactions is a control transaction and as such, whether the Non-Associated Shareholders should receive a premium for control. It is only RSL that may obtain an equity interest of greater than 20% in the Combined Group which may represent a meaningful level of 'control'.

In this regard, we note that RSL will acquire a relevant interest:

- of approximately 23.3% after the Proposed Acquisition
- an additional interest of 7.2% after the Share Placement.

RSL will 'acquire' 30.5% of the issued shares of the Combined Group without paying a premium for control. The issue prices of the shares under the Proposed Acquisition and the Share Placement are at USD0.648 per share, which is consistent with the closing price at 31 March 2017 of USD0.648[34] per share.

11.7. Other considerations

This IER only provides general information. It does not take into account the Non-Associated Shareholders individual situation, objectives and needs. It is not intended to replace professional advice that should be obtained by individual Non-Associated Shareholders. Non-Associated Shareholders should consider whether this IER is appropriate for their circumstances, having regard to their individual situations, objectives and needs before relying on or taking action. Non-Associated Shareholders are encouraged to seek their own advice.

Whether or not individual Non-Associated Shareholders vote to implement the Proposed Transaction depends on their own circumstances, as well as each Non-Associated Shareholders view on the reasonableness factors summarised above.

11.8. Conclusion on the Proposed Transactions

In our opinion, in the absence of a superior offer, the Proposed Transactions are 'fair' and 'reasonable', and to Non-Associated Shareholders, as a whole.

As part of assessing whether or not the Proposed Transactions are fair and reasonable to the Non-Associated Shareholders, PPB has assessed the value of an issued share of Emefcy before the Proposed Transaction on a control basis and compared it to the value of an issued share of Emefcy after the Proposed Transaction, assuming that the Proposed Transactions proceed.

[34] Converted at AUD/USD 0.76 and the basis for the calculation of the Consideration

The alternative to the Proposed Transactions for Non-Associated Shareholders is to vote against the Proposed Transactions and continue to hold shares in Emefcy. Any other possible transaction may be more dilutive to Shareholders.

12. Limitations and disclosures

12.1. Qualifications

PPB holds an Australian Financial Services Licence (No. 344626) under the Act and its authorised representatives are qualified to provide this Report.

PPB provides a range of corporate advisory services and has advised on numerous takeovers, valuations, acquisitions and restructures.

This Report has been prepared by Fiona Hansen B Com, Hon Acc Science, CA, CA (SA) and a Partner at PPB Advisory and authorised representative of PPB Corporate Finance Pty Ltd. Fiona has over 20 years of experience in corporate finance advice including business valuations, preparing independent expert's reports, transaction advisory, financial due diligence and mergers and acquisitions.

This Report has also been prepared by Campbell Jaski BSc (Hons), MBA, FAusIMM, FFin, FCIArb and a Director of PPB and Partner at PPB Advisory. Campbell has over 20 years of experience in management and corporate finance.

Based on their experience, Fiona and Campbell have the appropriate experience and qualifications to provide the advice offered.

12.2. Disclaimers

This Report was not prepared for any other purpose or for use by any other person. PPB does not accept any responsibility to any person other than the Directors and Shareholders for the use of the Report outside the stated purpose without the written consent of PPB. 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.

Approval or rejection of the Proposed Transactions are matters for individual Shareholders based on their expectations as to various factors including the value and future prospects of Emefcy, the terms of the Proposed Transactions, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders should carefully consider the documents. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transactions should consult their professional adviser.

12.3. Current market conditions

Our opinion is 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. PPB 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 PPB.

12.4. Currency

All references to 'USD' and 'dollars' are references to United States dollars unless stated otherwise.

12.5. Independence

Prior to accepting this engagement, PPB considered its independence with respect to the Proposed Transactions with reference to the RG 112 and APES 110 Code of ethics for professional accountants issued by the Accounting Professional and Ethics Standards Board.

We have concluded that there are no conflicts of interest with respect to Emefcy and RWL involved in the Proposed Transactions.

PPB has no involvement with, or interest in, the outcome of the approval of the Proposed Transactions other than that of independent expert for the Shareholders of Emefcy. PPB is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this Report and an independent expert report prepared for the Emefcy Shareholders.

Except for these fees, PPB will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this Report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transactions. PPB will receive no other benefit for the preparation of this Report.

12.6. Consents

PPB consents to issuing this Report in the form and context in which it is included in the Explanatory Memorandum and Notice of Meeting. Apart from the Report, PPB is not responsible for the contents of the Explanatory Memorandum and Notice of Meeting, or any other document or announcement associated with the Proposed Transactions. PPB acknowledges that its Report may be lodged with regulatory bodies.

12.7. Reliance on information

The statements and opinions contained in this Report are given in good faith and are based upon PPB's consideration and assessment of information provided by Emefcy. PPB 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 PPB 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 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 PPB's role to undertake, and PPB has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Proposed Transaction. PPB understands that the Directors have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary.

PPB 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 and/or their advisors.

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

It is understood that, except where noted, the accounting information provided to PPB 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 Emefcy in previous accounting periods.

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

Emefcy has agreed to indemnify PPB, including its related entities 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 PPB by Emefcy, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

12.8. Prospective financial information

In preparing the Report, PPB may have regard to prospective financial information for FY17 and FY18 in relation to each of Emefcy and RWL ('Prospective Financial Information'). PPB understands that the Prospective Financial Information has been prepared as part of the ongoing management processes of the respective companies.

For the purposes of our Report, PPB understands and will assume that the Prospective Financial Information:

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

We understand that the Prospective Financial Information will be based on assumptions concerning future events and market conditions and while prepared with due care and attention and the directors of Emefcy and RWL 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, Emefcy, nor PPB will guarantee that the Prospective Financial Information or any other prospective statement contained in the Report or otherwise relied upon will be achieved.

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

Set out below are some of the indicative factors that would support a conclusion that the Prospective Financial Information has 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
- Prospective Financial Information is not based on business models that have yet to be proven and/or anticipated arrangements with customers, suppliers, or other parties that have yet to be confirmed
- the reporting and budgeting processes of Emefcy and RWL have been in place for some time and involve regular reporting of actual performance to budget variances, management follow up, input from senior management and that process itself is under continuous review
- Prospective Financial Information is based on detailed models that are designed to be driven by specific key inputs such as unit sales, unit price movements, etc
- Prospective Financial Information has been endorsed by the management and directors of Emefcy and RWL;
- Prospective Financial Information makes appropriate allowance for known contingencies.

To ascertain the above, the scope of PPB work in this regard comprised the following:

- obtained details of the Prospective Financial Information and the process by which this information was prepared
- determined the composition of the Prospective Financial Information;
- discussions with management of Emefcy and RWL 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 e.g. price, customer acquisition, customer volume purchase increase and investigate any new key contracts;
- enquired if the Prospective Financial Information is adopted by the directors of Emefcy and RWL;
- investigated previous forecasting history and experience;
- reviewed the most recently available monthly management accounts; and
- considered the relevant industry trends and the position of Emefcy and RWL within their respective industries.

Appendices

Appendix A. Glossary of terms

Abbreviation	Definition
AASB	Australia Accounting Standards Board
ACCC	Australian Competition and Consumer Commission
AFSL	Australian Financial Services Licence
APES 225	Accounting Professional & Ethics Standard 225 Valuation Services
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) and where the context requires, the Australian Securities Exchange operated by ASX Limited
AUD	Australian dollars
AUS	Australian
capex	Capital expenditure
CFME	Capitalisation of future maintainable earnings
Combined Group	Emefcy after the acquisition of RWL
Completion	Completion occurs when completion of the acquisition of the LLC Interests under the Sale and Purchase Agreement occurs
Consideration Shares	100,500,000 Shares, to be issued in consideration for acquiring the LLC Interests
Corporations Act or Act	Corporations Act 2001 (Cth)
DCF	Discounted cash flow
Directors	Directors of Emefcy
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest tax depreciation and amortisation
EBR	Electrogenic Bio Reactors
Emefcy or the Company	Emefcy Group Limited (ACN 127 734 196)
ESOP	Employee Share Options Plan
EV	enterprise value
Explanatory Memorandum and Notice of Meeting	The explanatory memorandum and notice of meeting, prepared by the Directors and sent to Shareholders in respect of the Resolutions
FIRB	Foreign Investment Review Board
FME	Future maintainable earnings
FMV or fair market value	Fair market value (underlying standard of value applied in this assessment)
FOS	Financial Ombudsman Service Limited
free float	80% of issued shares estimated using the ASX share notifications dated 13 April 2016 and 10 April 2017
FSG	Financial Services Guide
FX	Foreign Exchange
FY	Financial year ended or ending 31 December
Holdback period	12-month period beginning on the date of Completion, during which the Holdback Shares are not required to be issued by the Company
Holdback Shares	20% of the Consideration Shares calculated at Completion which will be held back in order to satisfy any claims arising from the breach of warranties and indemnities given to the Company under the Sale and Purchase Agreement

Abbreviation	Definition
IER or Report	This independent expert's report
IFRS	International financial reporting standards
k	Thousand
Licence	PPB's Australian Financial Services Licence (No. 344626)
Listing Rules	The official listing rules of ASX
LLC Interests	The limited liability company interests in RWL as described in the Sale and Purchase Agreement.
Lock-Up	The period during which shares in Emefcy issued pursuant to the SPA will be subject to escrow arrangements under the Lock-Up Agreement
Lock-Up Agreement	An agreement to be entered into between RSL and the Company restricting RSL from selling, transferring or otherwise disposing of any Consideration Shares for two years commencing on Completion (except in the specific circumstances described in the SPA or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18).
Lock-Up Period	Under the Lock-Up Agreement, RSL will be restricted from selling, transferring or otherwise disposing of any Consideration shares for two years commencing from the completion date.
LOIs	Non-binding letters of intent
m	Million
MABR	Membrane Aerated Biofilm Reactors
Management	Management of Emefcy
Mr Lauder	Mr Ronald Lauder
NA	Net assets or net asset value
Non-Associated Shareholders	Shareholders of Emefcy that are not associated with the Proposed Transactions
NPAT	Net profit after tax
Option	An option to acquire a share in accordance with the terms and conditions determined at the time of the issue
PP&E	Property, plant and equipment
PPB	PPB Corporate Finance Pty Ltd
PPLA	Private Placement Letter Agreement
Pro forma Number of Shares	The pro forma number of fully diluted shares
Proposed Acquisition	Proposed Acquisition - to acquire the LLC Interests from RSL in consideration for which the Company will issue the Consideration Shares to RSL and pay a cash payment of USD10,000
Proposed Transactions	The transactions proposed by the Company requiring Shareholder approval: • Proposed Acquisition • the Share Placement
Prospective Financial Information	Prospective financial information for FY17 and FY18 in relation to Emefcy and RWL
RBA	Reserve Bank of Australia
Report or IER	This report
RG	ASIC Regulatory Guide
RG 111	ASIC Regulatory Guide 111 Content of expert's reports
RG 112	ASIC Regulatory Guide 111 Independence of experts
RG 74	ASIC Regulatory Guide 74 Acquisitions approved by members
RG 76	ASIC Regulatory Guide 76 Related party transactions

Abbreviation	Definition
RSL	RSL Investments Corporation
RWL	RWL Holdings Pty Ltd (ACN 603 473 623)
RWL	RWL Water LLC which is the ultimate holding company of the RWL Water Group and owns operating companies within the RWL Water Group
RWL Acquisition	the acquisition of RWL through the exchange of 100% of the ordinary shares of RWL for the issue of ordinary shares in Emefcy
RWL Water Group	RWL, RWL Argentina, RWL Investments, RWL Israel, RWL Middle East, RWL Italy and RWL USA and their respective subsidiaries
SABRE	Spiral Aerobic Biofilm Reactor
Section 611	Section 611 of the Corporations Act 2001 (Cth)
Share	Issued ordinary share in Emefcy
Share Placement	The issue of Shares to RSL at a price of AUD0.85 to raise USD20 million
Shareholder	A person who is registered as the holder of an Emefcy share in the Emefcy share register
SPA	The Sale and Purchase Agreement between the Company and RSL executed on 26 May 2017 for the Company to purchase the LLC Interests from RSL
Term Sheet	The signed term sheet between Emefcy and RSL dated 28 November 2016
USD	United States of American dollars
Valuation Date	31 March 2017
VWAP	Volume weighted average share price

Appendix B. List of sources of information

In preparing this Report we have been provided with and considered the following sources of information:

- Article: *'The World Bank – High and Dry: Climate Change, Water and the Economy'* – published 4 April 2017
- Article: '*The Water and Wastewater Treatment Industry: An Interview with Karan Chechi From TechSci Research*', http://www.azocleantech.com/article.aspx?ArticleID=540, 24 June 2015
- ASIC Current Organisation Extract for Emefcy Group Limited on 26 April 2017
- Audited annual reports of Emefcy for years ended 31 December 2015 and 31 December 2016
- Audited annual reports of RWL for years ended 31 December 2015 and 31 December 2016
- Bloomberg for iron ore prices and Notes trading prices
- Discussions with Management, and the Company's advisers
- Draft Explanatory Memorandum and Notice of Meeting
- Emefcy – Advisor due diligence reports
- Emefcy – Legal due diligence reports
- Emefcy and RWL forecasts
- Emefcy and RWL management accounts
- Emefcy board minutes
- Emefcy business plan for FY17 and FY18
- Emefcy corporate financial model
- Emefcy share registry report
- Emefcy's website
- FAO. 2016. AQUASTAT website. Food and Agriculture Organization of the United Nations (FAO). Website accessed on 10 May 2017
- financial information from S&P Capital IQ
- IBISWorld reports:
  - Water and Waste Services Infrastructure Construction in Australia –Industry report OD5165 – April 2017
  - Water Treatment Services in Australia –Industry report OD5422 – June 2016
- Letter of intent, term sheet, Sale and Purchase Agreement and Private Placement Letter Agreement
- RBA website
- RWL website
- Various ASIC extracts and company returns
- Various Emefcy ASX announcements and Shareholder presentations
- Various public disclosure documents lodged by Emefcy with the ASX

Appendix C. Valuation methodologies

To estimate the fair market value of Emefcy, we have considered the common market practice and the valuation approaches recommended by RG 111, that provide guidance in respect of the content of independent expert's reports. The common valuation approaches are as follows:

- market based approach
- income based approach
- asset based approach.

Each approach is appropriate in certain circumstances. The decision as to which approach and specific methodology to apply generally depends on the nature of the company or asset being valued, the methodology most commonly adopted in valuing such companies or assets and the availability of appropriate information.

These approaches are summarised below:

Market based approach

Market based approach estimates the fair market value by considering the market price of transactions in its shares or the market value of comparable companies. The market based approach includes the following methods:

- capitalisation of earnings method
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of earnings method estimate the fair market value based on a company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings is appropriate where a company's earnings are relatively stable and it is assumed that the business will continue trading as a going concern indefinitely.

The most recent share trading history provides evidence of the market value of the shares of the company where they are publicly traded in an informed market.

Industry specific methods estimate the fair market value using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods, because they do not account for company specific factors. Industry specific methods are typically used as cross checks in specific industries.

Income based approach

Under the income approach, the discounted cash flow method estimates the fair market value by discounting a company's future cash flows to a net present value using an appropriate discount rate. The DCF method is appropriate where there are long term projections of future cash flows of at least five to ten years and the projections can be made with a reasonable level of confidence. DCF method is typically used where:

- the businesses' 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
- the business is currently making losses but is expected to recover.

Asset based approach

Asset based approach estimates the fair market value of a company's shares based on the realisable value of its identifiable net assets. The asset based approach includes the following methods:

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

The orderly realisation of assets method estimates the fair market value of the net assets by estimating the amount that would be distributed to its shareholders after the payment of all liabilities are satisfied including realisation costs and taxation, assuming that the company is wound up in an orderly manner.

The liquidation of assets method is similar to the orderly realisation of assets method except that the liquidation method assumes that the assets are sold in a shorter timeframe. Since wind up or liquidation of the company may or may not be contemplated, this method in its strictest form may not necessarily appropriate.

The net assets on a going concern basis estimates the market value of the net assets of the company but does not take into account realisation costs.

The net asset value of a trading 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 attributable to goodwill.

The assets based methods are relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business.

The net realisable assets method is also used as a cross check for the values derived using other methods.

Appendix D. Comparable trading company analysis

Comparable international companies – earnings and multiples

Company name	Country	Enterprise value at 31/03/16 *USD million*	Revenue LTM *USD million*	Revenue growth LTM *%*	EBITDA margin LTM *%*	Revenue multiple LTM *times*	Revenue multiple NTM *times*
Middlesex Water Company	United States	753	107	5.5%	41.4%	7.0	6.8
Eastern Water Resources Development and Management Public Company Limited	Thailand	791	104	0.0%	54.3%	7.6	n/a
Hydrotek Public Company Limited	Thailand	21	10	(44.3%)	(26.5%)	2.2	n/a
MyCelx Technologies Corporation	United States	6	6	0.1%	(17.0%)	1.1	n/a
Modern Water plc	United Kingdom	5	3	12.3%	(74.3%)	1.6	1.1
Clearford Water Systems Inc.	Canada	24	3	(2.5%)	(83.4%)	9.1	n/a
Beyond Time Holdings Ltd	Israel	5	1	63.1%	(98.2%)	6.5	n/a
ENPAR Technologies Inc.	Canada	7	0	(0.5%)	(113.1%)	25.0	n/a
Connecticut Water Service, Inc.	United States	836	81	2.7%	43.9%	10.3	9.3
Xylem Inc.	United States	11,141	3,214	3.2%	17.2%	3.5	3.0
Roper Technologies, Inc.	United States	26,146	3,201	5.8%	35.8%	8.2	7.1
Qianjiang Water Resources Development Co., Ltd.	China	786	98	1.4%	33.1%	8.0	n/a
Artesian Resources Corporation	United States	376	65	2.7%	46.0%	5.8	5.7
Zhongshan Public Utilities Group Co., Ltd.	China	2,603	169	18.9%	31.2%	15.4	n/a
Aqua America, Inc.	United States	7,653	666	0.7%	56.9%	11.5	11.0
Beijing Originwater Technology Co., Ltd.	China	6,990	1,035	70.5%	24.5%	6.8	4.8
Tianjin MOTIMO Membrane Technology Co., Ltd.	China	681	91	23.9%	12.4%	7.5	4.3
Average				**9.6%**	**(0.9%)**	**8.1**	**5.9**
Median				**2.7%**	**24.5%**	**7.5**	**5.7**
Average (negative EBITDA margin companies)				**4.7%**	**(68.8%)**	**7.6**	**1.1**
Median (negative EBITDA margin companies)				**(0.2%)**	**(78.9%)**	**4.3**	**1.1**

Source: S&P Capital IQ and PPB analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash

2. Control premium of 30% has been applied to market capitalisation to calculate the multiples above

3. LTM = last twelve months; NTM = next twelve months; n/a = not available

4. Emefcy figures have not been included in the calculations of average and median

Comparable company analysis – internationally listed company descriptions

Company	Description
Middlesex Water Company	Middlesex Water Company, through its subsidiaries, owns and operates regulated water utility and wastewater systems. The company operates in two segments, Regulated and Non-Regulated. The Regulated segment collects, treats, and distributes water on a retail and wholesale basis to residential, commercial, industrial, and fire protection customers in parts of New Jersey, Delaware, and Pennsylvania. This segment also operates regulated wastewater systems in New Jersey and Delaware. The Non-Regulated segment provides non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Middlesex Water Company was founded in 1897 and is headquartered in Iselin, New Jersey.
Eastern Water Resources Development and Management Public Company Limited	Eastern Water Resources Development and Management Public Company Limited, together with its subsidiaries, develops and manages water distribution pipeline systems in the eastern seaboard area of Thailand. It produces and supplies tap water; provides water treatment, and operation and maintenance management services; recycles water; and supplies raw water. Eastern Water Resources Development and Management Public Company Limited was founded in 1992 and is headquartered in Bangkok, Thailand.
Hydrotek Public Company Limited	Hydrotek Public Company Limited, together with its subsidiaries, provides water treatment services, constructs wastewater treatment systems, and sells related supplies in Thailand. The company offers engineering, procurement, and construction services that include design and engineering, and construction contractor services, as well as commissioning; provides operation and maintenance services; and invests in water treatment projects and sells to private and public sectors in the form of build, own, and operate, as well as build, operate, and transfer. Its projects include portable and related plants; water treatment plant for petrochemical industry; and desalination plants and wastewater recycle plant, as well as wastewater collection systems. The company was founded in 1982 and is based in Bangkok, Thailand.
MyCelx Technologies Corporation	MyCelx Technologies Corporation, a clean water technology company, primarily provides novel water treatment solutions to the oil and gas sector worldwide. The company offers oil removal solutions for upstream produced water to oil companies; and hydrocarbons removal services from downstream process wastewater used in petrochemical facilities and refineries. It also offers water treatment systems for use in a range of industrial situations, including power generation and utilities, manufacturing and heavy industry, marine applications, and facilities that require oil and hydrocarbon removal from water. In addition, the company sells or leases its equipment; and sells patented consumable filtration media. Further, it offers technical services on a recurring basis to end users. The company was incorporated in 1994 is based in Duluth, Georgia.
Modern Water plc	Modern Water plc owns, develops, and supplies technologies, products, and services to address the availability of fresh water, and for the treatment and disposal of wastewater worldwide. The company operates in two segments, Membranes and Monitoring. It owns, installs, and operates water and industrial water treatment membrane solutions and products, including membrane brine concentration technologies; multi stage flash desalination plants; forward osmosis desalination plants; evaporative cooling systems; and enhanced oil recovery, hydro osmotic power, and osmotic concentration or dehydration applications. The company also supplies a range of packaged reverse osmosis systems for seawater desalination applications, as well as Brackish water desalination units under the AquaPak brand; and bespoke design and supply, and installation and operations support services. In addition, it designs, develops, and provides analytical instruments and technologies for monitoring toxicity, trace/heavy metals, and environmental contaminants in water, soil, and industry process streams. Further, the company offers wastewater technologies, including Poseidon, a wastewater treatment system for the treatment of saline effluents and seawater substitution; and AguaCure, a technology for removing dissolved contaminants from water without the use of chemicals. Modern Water plc was founded in 2006 and is headquartered in Guildford, the United Kingdom.
Clearford Water Systems Inc.	Clearford Water Systems Inc. designs, manufactures, and markets unified water management and sanitation systems in North America, South America, India, and internationally. The company offers the Clearford One system, which is a combination of its ClearDigest Smart Digester; SBS ClearConvey, its patented small bore sewer (SBS) technology, a watertight small diameter wastewater collection system; and ClearRecover, a waste water treatment facility based on the processed influent received from the ClearDigest and SBS ClearConvey components of the system. The Clearford One enables installation and integration of various other water systems, including stormwater management, fire suppression, and water distribution and redistribution. It also designs, manufactures, and sells ultraviolet purification systems using its patented crossfire technology into the potable water, wastewater, reuse, and rainwater harvesting markets. The company was formerly known as Clearford Industries Inc. and changed its name to Clearford Water Systems Inc. in June 2014. Clearford Water Systems Inc. is headquartered in Ottawa, Canada.

Company	Description
Beyond Time Holdings Ltd	Beyond Time Holdings Ltd develops facilities for restitution and purification of waste water in Israel, China, and Myanmar. It designs, develops, manufactures, markets, installs, operates, and maintains water purification facilities. The company's products include multi stage biological and pond systems. It serves municipalities, enterprises, private institutions, and resorts. The company was formerly known as Yaad Industrial Representation Ltd. and changed its name to Beyond Time Holdings Ltd in July 2015. Beyond Time Holdings Ltd was founded in 1987 and is headquartered in Ramat Gan, Israel.
ENPAR Technologies Inc.	ENPAR Technologies Inc. specializes in environmental protection and remediation technologies. It provides patented and proprietary technologies for the treatment of waste water and drinking water that are contaminated by metals or nutrients associated with the mining, metal processing, chemical, agricultural, municipal, and waste management sectors; and for the recovery of nickel and other valuable metals from waste mill sulphide tailings associated within the mining sector. The company offers electro-static deionization/ESD, a capacitive deionization technology for the removal of total dissolved solids; AmmEL, an ammonia removal technology to treat ammonia contaminated water; and NitrEL system, an electrochemical water treatment process that reduces nitrate concentrations in contaminated drinking water, groundwater, and industrial process wastewater streams by converting the nitrate directly to nitrogen gas. It also provides AmdEL system, an electrochemical system that prevents the oxidation of sulphide minerals in tailings or waste rocks; and ExtrEL, a hydrometallurgical alternative for the recovery of metals from sulphide tailings and ores. The company offers its products to clients in public and private sectors worldwide. ENPAR Technologies Inc. was incorporated in 1996 and is headquartered in Guelph, Canada.
Connecticut Water Service, Inc.	Connecticut Water Service, Inc., together with its subsidiaries, operates as a regulated water company. The company operates through three segments: Water Operations, Real Estate Transactions, and Services and Rentals. The Water Operations segment supplies public drinking water. The Real Estate Transactions segment is involved in the sale or donation of its real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities, and other clients. Its services include contract operations of water and wastewater facilities; Linebacker, a service line protection plan for public drinking water customers; and providing bulk deliveries of emergency drinking water to businesses and residences through tanker trucks. This segment also leases and rents residential and commercial properties to third parties. As of December 31, 2016, the company supplied water to 124,968 customers in Connecticut and Maine, the United States. Connecticut Water Service, Inc. was founded in 1956 and is headquartered in Clinton, Connecticut.
Xylem Inc.	Xylem Inc. engages in the design, manufacture, and service of engineered solutions for the water and wastewater applications. It operates through three segments: Water Infrastructure, Applied Water, and Sensus. The Water Infrastructure segment offers various products, including water and wastewater pumps, treatment and testing equipment, and controls and systems, as well as filtration, disinfection, and biological treatment equipment under the Flygt, WEDECO, Godwin, WTW, Sanitaire, YSI, and Leopold names for the transportation, treatment, and testing of water and wastewater for public utilities and industrial applications. The Applied Water segment provides pumps, valves, heat exchangers, controls, and dispensing equipment systems under the Goulds Water Technology, Bell & Gossett, A-C Fire Pump, Standard Xchange, Lowara, Jabsco, Flojet, and Flowtronex names for residential and commercial building services, industrial water, and irrigation applications. The Sensus segment provides communications, smart metering, measurement, and control technologies and services that allow customers to use their distribution networks for the delivery of critical resources, such as water, electricity, and natural gas. This segment also offers software and services, including cloud-based analytics, remote monitoring, and data management, as well as sells smart lighting products and solutions. The company markets and sells its products through a network of direct sales force, resellers, distributors, and value-added solution providers in the United States, Europe, the Asia Pacific, and internationally. Xylem Inc. is headquartered in Rye Brook, New York.
Roper Technologies, Inc.	Roper Technologies, Inc. designs and develops software, and engineered products and solutions. It operates in four segments: Medical & Scientific Imaging; RF Technology; Industrial Technology; and Energy Systems & Controls. The company offers diagnostic and laboratory software solutions; patient positioning devices and related software, 3-D measurement technology, and diagnostic and therapeutic disposable products; non-invasive instruments and video laryngoscopes; and a cloud-based financial analytics and performance software platform, as well as electron filters, charged couple devices, and complementary metal oxide semiconductor cameras, detectors, and related software. It also offers radio frequency identification communication technology and software solutions that are used primarily in toll and traffic systems, security and access controls, campus card systems, card readers, software-as-a-service, and metering and remote monitoring applications, as well as management software for legal and construction firms. In addition, the company offers fluid handling pumps, materials analysis equipment and consumables, leak testing equipment, flow measurement and metering equipment, and water meter and automatic meter reading products and systems. Further, it provides control systems, fluid properties testing equipment, industrial valves and controls, vibration sensors and controls, and non-destructive inspection and measurement products and solutions. Additionally, the company provides enterprise software and information solutions for government contractors, professional services firms, and other project-based businesses. It serves healthcare, transportation, commercial construction, food, energy, water, education, and academic research markets in the United States and internationally. The company was formerly known as Roper Industries, Inc. and changed its name to Roper Technologies, Inc. in April 2015. The company was founded in 1981 and is based in Sarasota, Florida.

Company	Description
Qianjiang Water Resources Development Co., Ltd.	Qianjiang Water Resources Development Co., Ltd. produces and supplies tap water primarily in Zhejiang province, China. The company also treats waste water; and installs pipes. In addition, it is involved in the real estate development activities; distribution of materials and spare parts; and provision of hotel and property management services. The company was incorporated in 1998 and is based in Hangzhou, China.
Artesian Resources Corporation	Artesian Resources Corporation, through its subsidiaries, provides water, wastewater, and other services on the Delmarva Peninsula. The company distributes and sells water to residential, commercial, industrial, municipal, and utility customers in the states of Delaware, Maryland, and Pennsylvania. It also offers water for public and private fire protection to customers in its service territories. In addition, the company provides contract water and wastewater services, water and sewer service line protection plans, and wastewater management services, as well as design, construction, and engineering services. As of December 31, 2016, it served approximately 82,700 metered water customers through 1,260 miles of transmission and distribution mains. The company was founded in 1905 and is headquartered in Newark, Delaware.
Zhongshan Public Utilities Group Co., Ltd.	Zhongshan Public Utilities Group Co., Ltd. engages in the production and supply of tap water in China. The company is also involved in water supply, sewage treatment, market leasing, property management, real estate development, and other businesses. Its water supply coverage area comprises of approximately 1,575 square kilometers. The company was formerly known as Zhongshan Public Utilities Science and Technology Company Limited and changed its name to Zhongshan Public Utilities Group Co., Ltd. in August 2008. Zhongshan Public Utilities Group Co., Ltd. was founded in 1992 and is based in Zhongshan, China.
Aqua America, Inc.	Aqua America, Inc., through its subsidiaries, operates regulated utilities that provide water or wastewater services in the United States. It offers water and wastewater services through operating and maintenance contracts with municipal authorities and other parties. The company also provides water and wastewater line repair services, and protection solutions to households; and non-utility raw water supply services for firms in the natural gas drilling industry. It serves approximately three million residential water, commercial water, fire protection, industrial water, wastewater, and other water and utility customers in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. The company was formerly known as Philadelphia Suburban Corporation and changed its name to Aqua America, Inc. in 2004. Aqua America, Inc. was founded in 1968 and is based in Bryn Mawr, Pennsylvania.
Beijing Originwater Technology Co., Ltd.	Beijing Originwater Technology Co., Ltd. provides water treatment solutions based on membrane water treatment technology worldwide. The company engages in the management of water environment, such as municipal sewage and park, industrial waste, town sewage, landfill leachate, and watershed management; development of new water sources; and household water purification. It is also involved in solid waste and sludge, wetlands and river, and indoor air treatment facilities; and providing business consulting services. Beijing Originwater Technology Co., Ltd. was founded in 2001 and is based in Beijing, China.
Tianjin MOTIMO Membrane Technology Co., Ltd.	Tianjin MOTIMO Membrane Technology Co., Ltd. researches, develops, manufactures, and sells membrane materials, processes, modules, and equipment. Its products include hollow fiber UF and MF membrane element and equipment; FP membrane module; submerged membrane filtration membrane modules; and drinking water devices. The company's membranes, equipment, and systems are used in the treatment of municipal wastewater and industrial water, such as power plant, steel, textile, domestic, petrochemical, food, drinking water, pre-treatment of sea water, and other industries. It also offers technical guidance and after-sales services. The company exports its products approximately to 20 countries. Tianjin MOTIMO Membrane Technology Co., Ltd. is headquartered in Tianjin, the People's Republic of China.

Appendix E. Comparable transaction company analysis

Announcement date	Target company name	Target country	Percentage acquired (%)	Implied enterprise value *AUD million*	Target revenue (LTM) *AUD million*	Implied Revenue multiple *x*	Target company description
Large transactions (>USD400m)							
23/04/2015	Inversiones y Asesorías Corvina S.A. (nka:Aguas de Antofagasta S.A.)	CLP	100	604,889.60	76,386.8	7.8	Aguas de Antofagasta S.A. produces and distributes drinking water in Chile. It is also involved in the collection, treatment, and disposal of sewage. The company serves its customers through a pipeline network of 1,140 kilometers. Aguas de Antofagasta S.A. was founded in 2003 and is based in Antofagasta, Chile. Aguas de Antofagasta S.A. is a subsidiary of Empresas Públicas de Medellín E.S.P.
24/10/2014	Hankook Jungsoo Industries Co., Ltd. (nka:Huvis Water Corporation)	KRW	95	138,341.91	109,991.0	1.3	Huvis Water Corporation produces, installs, and operates waste water treatment systems for use in nuclear and thermal power plants, combined heat and power plants, and large scale industrial plants in South Korea and internationally. It offers demineralization systems, seawater desalination systems, seawater electro-hypochlorination systems, condensate polishing systems, steam generator chemical cleaning systems, wastewater reclamation and reuse systems, and wastewater treatment systems. The company's water solutions include facilities operation, maintenance, technical support, technical consultation, and facilities improvement and diagnosis services. It also provides sewage and waste water treatment, wastewater reuse, chemical cleaning, and liquid waste treatment services. The company was founded in 1959 and is headquartered in Ansan, South Korea. Huvis Water Corporation is a subsidiary of Huvis Corporation.
12/05/2015	Pall Corporation	USD	100	14,750.05	2,851.4	4.8	Pall Corporation manufactures and markets filtration, separation, and purification products; and integrated systems solutions worldwide. Its Life Sciences segment provides technologies that facilitate the process of drug discovery, development, regulatory validation, and production, which are used in the research laboratories, pharmaceutical, biotechnology, and food and beverage industries, as well as in hospitals. It offers medical products to control the spread of infections in hospitals; cell therapy products; and filtration and purification technologies, associated hardware, and engineered systems for the development and commercialization of drugs, plasma, and vaccines. This segment also provides validation services to drug manufacturers; offers laboratory products for use in drug research and discovery, quality control testing, and environmental monitoring applications; and serves the filtration needs of beer, wine, dairy, alcohol-free beverage, bottled water, and food ingredient markets. This segment sells products through its direct sales force and distributors. The company's Industrial segment provides various technologies to producers and users of energy, oil, gas, renewable and alternative fuels, power, chemicals, and water, as well as to the machinery and equipment markets. This segment also offers filtration and fluid monitoring equipment for use in commercial and military aircraft, and marine and land-based military vehicles; filtration and purification technologies for the semiconductor, data storage, graphic arts, display, and electronic components markets; and a suite of contamination control solutions for chemical, gas,

Announcement date	Target company name	Target country	Percentage acquired (%)	Implied enterprise value AUD million	Target revenue (LTM) AUD million	Implied Revenue multiple x	Target company description
							water, chemical mechanical polishing, and photolithography processes. Pall Corporation was founded in 1946 and is headquartered in Port Washington, New York. As of August 31, 2015, Pall Corporation operates as a subsidiary of Danaher Corporation.
17/08/2016	Odebrecht Ambiental S.A. (nka:BRK Ambiental)	BRL	70	2,913.77	2,044.9	3.5	Odebrecht Ambiental S.A. engages in sanitation, sewage and wastewater treatment, and waste management activities in Brazil. It focuses on the provision of water supply and sewage treatment services by operating water and wastewater assets under public concession agreements. The company engages in the treatment, production, and supply of drinking water by capturing surface and underground water; treatment and reuse of water for industrial purposes; diagnosis and remediation of contaminated sites; treatment and disposal of industrial waste and effluents, and construction and municipal solid waste; and recovery and generation of steam and electricity from municipal solid waste. In addition, it provides environmental monitoring and waste management services, as well as response services to maritime emergencies. The company was formerly known as Foz do Brasil S.A. and changed its name to Odebrecht Ambiental S.A. in June 2014. The company was founded in 2008 and is based in São Paulo, Brazil. Odebrecht Ambiental S.A. operates as a subsidiary of Odebrecht Ambiental Participações S.A.
28/10/2015	Beijing Jiuan Construction & Investment Group Co. Ltd.	CNY	50	2,472.02	1,555.5	1.6	Beijing Jiuan Construction & Investment Group Co. Ltd. operates waste water treatment plants. The company is based in China. As of May 1, 2011, Beijing Jiuan Construction & Investment Group Co. Ltd. operates as a subsidiary of Beijing Origin Water Technology Co.,Ltd.
29/05/2015	Jinshan Environmental Protection Science and Technology Co Ltd.	CNY	100	2,256.25	311.5	7.2	Jinshan Environmental Protection Science and Technology Co Ltd. offers water treatment services. The company is headquartered in China. As of November 14, 2015, Jinshan Environmental Protection Science and Technology Co Ltd. operates as a subsidiary of Nanfang Zhongjin Environment Co., Ltd.
Average			**85.9**	**127,603.9**	**32,190.2**	**4.4**	
Median			**97.6**	**8,831.9**	**2,448.2**	**4.1**	
Small transactions (<USD400m)							
12/07/2016	Ovivo Inc.	CAD	100	203.82	335.9	0.5	Ovivo Inc. provides water and wastewater treatment equipment, technology, and systems for energy, municipal, and electronics markets. It offers boiler feed water treatment, cooling water treatment, transformer oil treatment, condensate polishing, flue gas desulfurization wastewater treatment, condenser/cooling water circuit optimization, and filtration products, as well as chemical solutions for power market; and boiler feed water treatment, raw water intake, heat exchanger/condenser optimization, and process/wastewater treatment products for the petrochemical market. The company also provides produced water primary treatment, seawater injection, potable water distribution, produced water secondary treatment, process water treatment, and produced water

Announcement date	Target company name	Target country	Percentage acquired (%)	Implied enterprise value *AUD million*	Target revenue (LTM) *AUD million*	Implied Revenue multiple *x*	Target company description
							tertiary treatment products, as well as fresh water makers for the oil and gas market. In addition, it offers aerobic treatment/nutrient removal, MBR, sludge treatment/aerobic digestion, clarification/sedimentation, sludge treatment/anaerobic digestion, sludge handling, and wastewater reuse/tertiary filtration products, as well as headworks and mobile systems for municipal wastewater treatment; and clarification/sedimentation, raw water intake, filtration, solids handling, and mixing/flocculation products for the drinking water treatment. Further, the company provides online trihalomethanes analyzer, semiconductor water recycle/reclaim, ultrapure water treatment, and semiconductor wastewater treatment products for the electronics market. Additionally, it offers various spare parts, replacement parts, and maintenance services. The company operates in 15 countries. The company was formerly known as GLV Inc. and changed its name to Ovivo Inc. in December 2014. Ovivo Inc. was founded in 1975 and is headquartered in Montréal, Canada.
18/05/2015	Industrial Air & Gas Technologies	USD	100	185.00	155.0	1.2	Industrial Air & Gas Technologies distributes blower and compressor technologies used for water treatment, chemical production, and power generation sector. The company is based in the United States with additional operations in the United Kingdom and China. Industrial Air & Gas Technologies operates as a subsidiary of GE Oil & Gas Inc. As of June 30, 2015, Industrial Air & Gas Technologies operates as a subsidiary of Colfax Corporation.
27/04/2015	Goldtrust Water Holdings Limited	USD	100	109.38	n/a	n/a	Goldtrust Water Holdings Limited, through its subsidiaries, offers water supply and sewage treatment services in China.. The company is based in Cayman Islands. As of June 3, 2015, Goldtrust Water Holdings Limited operates as a subsidiary of China Water Affairs Group Limited.
17/06/2016	Hydro International plc	GBP	82	28.75	37.9	0.7	Hydro International plc designs and sells products and solutions for managing water worldwide. The company's stormwater products include Downstream Defender to remove fine particles, oils, and other floatable debris; First Defense Vortex Separator to remove sediments, litters, and oils; Hydro BioCell, an biofiltration system; Hydro-Brake Chamber that comprises a precast reinforced concrete chamber base; Hydro-Brake flood alleviation for flood prevention; Hydro-Brake Optimum to control the forward flow of water; StormBank systems; Stormbloc for below ground storage/attenuation, surface water infiltration, and soakaway systems; Stormcell Storage, a stormwater storage system; Hydro StormTrain Series, a toolbox for surface water treatment; Up-Flo Filters; Hydro-Brake isolator pollution containment valves; and agile flow controllers. Its wastewater products comprise DynaDisc, a disc filter; DynaSand, a upflow vertical sand filter; DynaSand Deni to remove nitrates; DynaSand Oxy to remove ammonia; Grit Classifier and Grit Cleanse products; Grit King, a hydrodynamic vortex separator; GritCup, a grit washing solution; SpiraSnail, a dewatering screw system; HeadCell, a multiple tray separator; Hydro Vortex Drop shaft systems; Lamella separators to treat sewage and industrial waste streams; Meva screw wash presses, a screenings wash system; Hydro

Announcement date	Target company name	Target country	Percentage acquired (%)	Implied enterprise value *AUD million*	Target revenue (LTM) *AUD million*	Implied Revenue multiple *x*	Target company description
							MicroScreen rotating screen belts; filterMeva counter pressure screws; Meva shaftless screw conveyors for conveying sludge screenings and other wet and dry solids; SludgeScreens; TeaCup for headworks grit removal, separation, and washing; and Zickert reciprocating and rotating sludge scrapers. In addition, the company provides Heliscreen, which operates under surcharged conditions; Hydro-Jet Screen, a CSO screening system; Hydro-Static Screen, a non-powered screening technology; and Storm King, a hydrodynamic vortex separator. Hydro International plc was founded in 1980 and is headquartered in Clevedon, the United Kingdom. As of August 15, 2016, Hydro International plc was taken private.
6/12/2016	Acque Potabili S.p.A, Water Services Business Branch	EUR	100	26.50	n/a	n/a	As of January 9, 2017, Water Services Business Branch of Acque Potabili S.p.A was acquired by Iren SpA. Water Services Business Branch of Acque Potabili S.p.A comprises the business of supplying water on contractual basis.
11/02/2016	Aerex Industries Inc.	USD	51	18.79	19.1	0.7	Aerex Industries Inc. manufactures and installs water treatment systems for the water and wastewater industry. It offers welded stainless steel tubing and piping systems for various water applications, including water extraction and treatment, water purification, and potable water supplies and distribution; ASME vessels and API storage tanks; filtration devices and separation systems; custom-engineered equipment; and cartridge filter vessels for the municipal membrane treatment industry. The company also provides various purification and recovery processes, such as municipal potable, industrial process, wastewater reclamation, and surficial water reclamation; and construction services, which include 3-D modeling, structural finite element analysis, membrane treatment system design, and computerized hydraulic analysis. In addition, it offers various chemical treatment products and services that comprise anti-scalants, cleaners, and high performance chemicals, as well as on-site cleaning and general membrane support services. The company operates in the United States, Bermuda, the Caribbean Islands, South America, China, Japan, the Middle East, and internationally. Aerex Industries Inc. is headquartered in Fort Pierce, Florida. As of February 11, 2016, Aerex Industries Inc. operates as a subsidiary of Consolidated Water U.S. Holdings, Inc.
13/07/2016	Utility Partners, LLC	USD	100	17.00	26.9	0.6	Utility Partners, LLC maintains sewer pump stations transporting waste water to local treatment plants for processing. The company was incorporated in 2006 and is based in Gulfport, Mississippi. As of July 26, 2016, Utility Partners, LLC operates as a subsidiary of H2O Innovation USA Holding Inc..
25/11/2016	IWG Technologies Inc.	CAD	100	16.84	9.7	1.3	IWG Technologies Inc., through its subsidiary, International Water-Guard Industries Inc., develops, designs, manufactures, sells, and services potable water treatment equipment, on-demand water heaters, and water systems for aviation customers worldwide. It serves business aircraft original equipment manufacturers and business aircraft completion centers, as well as the commercial, and aircraft modification and repurposing markets. The

Announcement date	Target company name	Target country	Percentage acquired (%)	Implied enterprise value *AUD million*	Target revenue (LTM) *AUD million*	Implied Revenue multiple *x*	Target company description
							company was incorporated in 2011 and is based in Burnaby, Canada. As of January 24, 2017, IWG Technologies Inc. operates as a subsidiary of 1096777 B.C. Ltd.
8/09/2016	H2O Chemicals Ltd.	GBP	100	2.75	6.1	0.5	H2O Chemicals Ltd. provides water treatment services that prevent scale, corrosion, and microbiological fouling in heat exchange systems in the United Kingdom. It offers water hygiene, air hygiene, technology, and health and safety training services. The company serves food and drink, industrial, commercial, facilities management, education, local government, utilities, public sector, healthcare, hotel and leisure, and other markets. H2O Chemicals Ltd. was incorporated in 1991 and is based in Leeds, United Kingdom. As of September 8, 2016, H2O Chemicals Ltd. operates as a subsidiary of Marlowe plc.
18/04/2016	WCS Environmental Group Limited	GBP	100	2.55	5.8	0.4	WCS Environmental Group Limited provides water treatment services in the United Kingdom. The company offers water treatment plant installation and maintenance, water treatment chemicals, evaporative cooling systems care and refurbishment, engineering services, and monitoring and analytical services. It also offers various consultancy services that range from legionella risk assessments, water sampling and analysis, and site systems and management scheme audits, as well as legionella awareness training. The company offers chemical water treatment packages for various engineered water systems, including cooling towers, steam boilers, swimming pools, spa pools, hot and cold water distribution, heating and chiller closed loop systems, and vehicle wash systems. It serves various sectors of businesses, including healthcare, education, defense estates, national retail and leisure industries, and petroleum and steel manufacturing plants. The company was incorporated in 2008 and is based in Cromhall, United Kingdom. As of April 18, 2016, WCS Environmental Group Limited operates as a subsidiary of Marlowe plc.
31/07/2015	Progressive Water Treatment Inc.	USD	100	1.50	6.2	0.2	Progressive Water Treatment Inc. provides water treatment systems and services for clients throughout the United States and abroad. It offers reverse osmosis, ultrafiltration, media filtration, water softening, ion exchange, electro deionization, and chemical injection systems, as well as rental/pilot equipment and replacement parts. The company also provides a range of services, including short and long term maintenance, system parts, and service, as well as rental equipment for short and long term situations. Its systems and services for power, municipal, pharmaceutical, semiconductor, general industrial, and commercial applications. The company is based in McKinney, Texas. As of October 1, 2015, Progressive Water Treatment Inc. operates as a subsidiary of OriginClear, Inc.
Average			**93.9**	**55.7**	**67.0**	**0.7**	
Median			**100.0**	**18.8**	**19.1**	**0.6**	

Source: S&P Capital IQ and PPB analysis

Notes:

1. Implied enterprise value represents the sum of the target's implied equity value (calculated using transaction value and stake) and debt, less cash

2. LTM = last twelve months; NTM = next twelve months; n/a = not available

3. Best Tractor Parts Pty Ltd. is a direct competitor to Emefcy and has been assessed as the most comparable transaction (highlighted in grey)

Appendix F. Control premium analysis

Multiples applied in a CFME method are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular share. Accordingly, when valuing a business (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing each of Emefcy (on a standalone basis) we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the trading prices for listed comparable companies.

Observations from transaction evidence indicate that takeover premiums generally range from 20 to 35% for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater. Takeover premiums can vary significantly between individual transactions. Takeover premiums can vary significantly between transactions as the final price paid will reflect to varying degrees:

- any pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the expected synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation

We have selected a control premium of 30% for the purposes of our assessment, based on an analysis of control premiums paid in Australian transactions since 1 May 2012.

A control premium represents the amount paid by an acquirer above the current trading price of a publicly listed company in order to obtain a controlling interest in that company.

Our control premium analysis was conducted using data from obtained S&P Capital IQ in relation to 185 transactions between 1 May 2012 and 2 May 2016. We have analysed the control premium by comparing the transaction value to the closing share price of the target company one day prior to the announcement date. The results of our control premium analysis are summarised below.

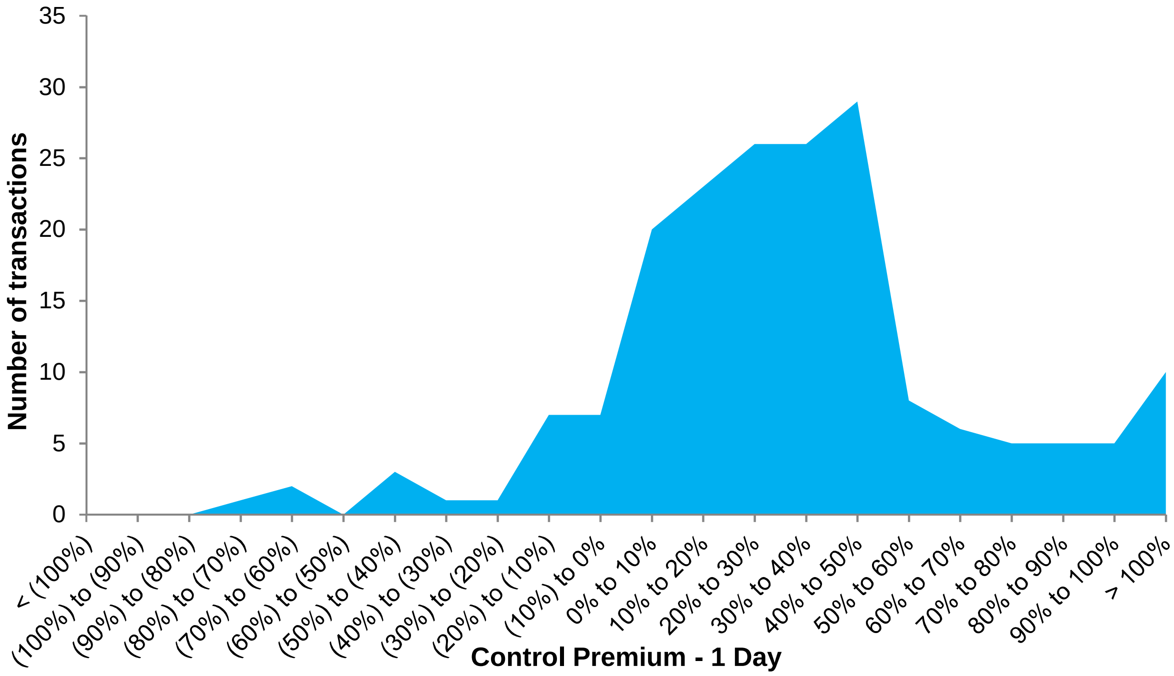
Results of control premium study

Average	35%
Median	30%
Bottom Quartile	13%
Top Quartile	47%

Source: S&P Capital IQ

The quantum of control premiums varied significantly across transactions but generally ranged between 10% to 50%, as illustrated in the figure below.

Distribution of results of control premium study



Source: S&P Capital IQ, PPB analysis

In our opinion there may be an upward bias in the transactions analysed, because:

- many of the acquisitions are opportunistic and occurred at times when the target company is trading at a depressed value
- acquirers often pay above fair market value to acquire a company because they can generate significant synergies and special value. Special value is not taken into account in a fair market value assessment
- many of the transactions involved a competitive bidding process which generally results in the acquirer paying away a larger portion of their expected synergies than would otherwise be necessary
- many of the target companies' shares were thinly trading and as a result may have been trading at values below their fair market value

The potential upward bias due to the above points is offset by the fact that in some circumstances the market may have already been aware of or anticipated the acquisition prior to announcement, which would reduce the implied control premium.