Dear Shareholder

27 August 2014

Re: Extraordinary General Meeting

In the Company's November 2013 prospectus and the presentation to investors following the first half year financial results on 28 February 2014, SubZero Group announced that it was evaluating a number of options relating to physical assets in order to strengthen its balance sheet.

One of the options being evaluated was the acquisition of the Premises at 39-43 Thomas Mitchell Drive, Muswellbrook, NSW (**Premises**). This would involve acquiring all of the shares held by the CEO, Scott Farrell, in TMD Investments Pty Ltd as trustee for the TMD Unit Trust, the units held by Scott Farrell in the TMD Unit Trust and the units held by JM Investments Trust in the TMD Unit Trust. TMD Investments Pty Ltd ACN159 789 036 (**TMD**) is the registered owner of the Premises and the Premises are the major asset of TMD.

In 2010 TMD constructed a fit for purpose facility on the property. As of 30 June 2014 the Company has provided funds in the amount of $2,100,000 to TMD and Scott Farrell by way of loan to assist in financing the construction of the building (**Loan**).

The Premises are directly across from the Mount Arthur Coal Mine, which is owned and operated by BHP Billiton Limited, a major customer of a number of subsidiaries of the Company. This location creates significant strategic advantage for SubZero Group over its competitors in relation to the provision of services for this significant mine.

As announced on 16 April 2014, the Company recently replaced its debtor financing facility with a new working capital facility provided by a syndicate of lenders led by Macquarie Bank Limited. Terms of the new facility include the condition that the Company must acquire the shares in, or assets of, TMD or provide a guarantee by 30 June 2014. The Company has negotiated with MBL for the date to be extended to 30 September 2014.

The ownership of the Premises will ensure that SubZero Group maintains control over this strategic assets and benefits from any capital growth and avoids major cost impacts in market rate reviews in the future. The independent valuation report by TEW Property Consultants confirms the valuation, subject to completion of the building works on the Premises.

An Independent Expert's Report (**IER**) has been prepared by William Buck Corporate Advisory Services (NSW) Pty Ltd for the Shareholders. The Report, which should be read by you, is attached to the Notice of Extraordinary General Meeting and assesses the transaction which is the subject of the resolutions as not fair but reasonable to the Non-Associated Members.

The Non-Executive Directors recommend to the Shareholders the purchase of the shares in TMD and the units in the TMD Unit Trust for a price of $2,832,000, to be paid by the issue of a maximum of 28,320,000 shares at $0.10 cents a share, determined as follows:

	Independent Valuation	$11,900,000
Less	Macquarie Bank Mortgage	- $6,500,000
Less	Loan from SubZero	- $2,068,000
Less	Amount retained to complete the construction on the Premises	- $500,000

It is important to note that the Non-Executive Directors are recommending that the shares to be issued to Scott Farrell are at a price approximately 25% higher than the volume weighted average price over the past 30 days. The Non-Executive Directors feel that the higher price is appropriate given the price paid for the capital raising in November 2013 and the IER.

Kind regards

Malcolm Jackman
Chairman

ABN 68 009 161 522
PO Box 561 Muswellbrook NSW 2333 | P 02 6540 9400 | F 02 6540 9444 | www.subzeroservices.com.au

NOTICE TO MEMBERS OF EXTRAORDINARY GENERAL MEETING

SUBZERO GROUP LIMITED

ABN 68 009 161 522

Date:	Tuesday 30 September 2014
Time:	10.00 am
Place:	PwC Sydney, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000

This Notice of Extraordinary General Meeting and Explanatory Statement should be read in its entirety.

If members are in doubt as to how to vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

An independent expert's report is attached to this Notice of Extraordinary General Meeting and Explanatory Statement, as required by ASX Listing Rule 10.1 and section 606 of the *Corporations Act 2001* (Cth). The report concludes that the transaction the subject of the resolution in this Notice of Extraordinary General Meeting is not fair but is reasonable to the Non-Associated Members, for the reasons set out in the report.

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NOTICE TO MEMBERS OF EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting (***EGM***) of the members of Subzero Group Limited ABN 68 009 161 522 will be held at PwC Sydney, Darling Park Tower 2, 201 Sussex Street, Sydney at 10.00 am on Tuesday 30 September 2014.

1 Resolutions

The Members of Subzero Group Limited ABN 68 009 161 522 (***Company***) are asked to consider and, if thought fit, approve the following resolutions as ordinary resolutions:

(a) the entry by the Company into the draft Share and Unit Sale Agreement enclosed with the Explanatory Statement to this Notice of EGM, between the Company, Scott Farrell, TMD Investments Pty Ltd ACN 159 789 036, TMD Investments Pty Ltd ACN 159 789 036 as trustee for the TMD Unit Trust and J M Auto Australia Pty Ltd ACN 111 132 999 as trustee for the JM Investments Trust (***JMAA***) in relation to the purchase by the Company of the shares held by Scott Farrell in TMD Investments Pty Ltd, the units held by Scott Farrell in the TMD Unit Trust and the units held by JMAA in the TMD Unit Trust (***Share and Unit Sale Agreement***);

(b) for the purposes of section 208(1) of the *Corporations Act 2001* (Cth), the giving by the Company of financial benefits to related parties of the Company (as those terms are defined in the *Corporations Act 2001*) in accordance with the terms of the Share and Unit Sale Agreement, such benefits being:

(i) the purchase by the Company of assets owned by Scott Farrell, being the single share in TMD Investments Pty Ltd and 92 units in the TMD Unit Trust;

(ii) the purchase by the Company of assets owned by JMAA, being 8 units in the TMD Unit Trust;

(iii) the issue of a maximum of 28,320,000 equity securities in the capital of the Company including the issue of equity securities:

(A) equivalent to a maximum value of $2,605,440 to Scott Farrell for non-cash consideration in part payment of the consideration owed by the Company under the Share and Unit Sale Agreement, for the purchase of the share in TMD Investments Pty Ltd and 92 units in the TMD Unit Trust, with the number of shares issued to be calculated in accordance with the Weighted Average Share Price as defined in the Share and Unit Sale Agreement;

(B) the issue equivalent to a maximum value of $226,560 to JMAA for non-cash consideration in part payment of the consideration owed by the Company under the Share and Unit Sale Agreement, for the purchase of 8 units in the TMD Unit Trust, with the number of shares issued to be calculated in accordance with the Weighted Average Share Price as defined in the Share and Unit Sale Agreement;

(c) for the purposes of section 606(1A) and section 611(7) of the *Corporations Act 2001*, the acquisition by Scott Farrell (through the issue of equity securities by the Company) of a relevant interest in issued voting shares of the Company which will increase the voting power of Mr Farrell and his associates from a starting point of 21.19% (being 53,585,593 shares out of the total 252,915,402 issued shares) to a maximum of 29.12% (being a maximum 81,905,593 out of a maximum total 281,235,402 issued shares) and the dilution of the shareholdings of existing members as a result of the issue of shares representing approximately 10.07% of the subsequent total issued shares;

(d) for the purposes of Listing Rule 7.1 of the ASX Listing Rules, the issue by the Company within a period of 12 months of equity securities in the capital of the Company representing greater than 15% of the total number of equity securities in the capital of the Company currently on issue, to a maximum of 48,000,000 shares;

(e) for the purposes of Listing Rule 10.1 of the ASX Listing Rules, the acquisition by the Company of a substantial asset, being all of the issued share capital in TMD Investments Pty Ltd and 92 units in the TMD Unit Trust, from Scott Farrell, a related party of the Company and 8 units in the TMD Unit Trust from JMAA, a party acting in concert with Scott Farrell;

(f) for the purposes of Listing Rule 10.11 of the ASX Listing Rules, the issue by the Company of equity securities to Scott Farrell, a related party of the Company and to JMAA a party acting in concert with Scott Farrell.

Voting Exclusion Statement: *The Company will disregard any votes cast in favour of any of these resolutions by Mr Scott Farrell, JMAA or any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

In these resolutions, a reference to any document in these resolutions is the document as amended, restated or replaced from time to time.

2 Background

2.1 As announced in the November 2013 prospectus and half year announcements, the Company has been evaluating several options in relation to the purchase of the physical assets of, or all of the issued ordinary share capital in, TMD Investments Pty Ltd ACN 159 789 036 (***TMD***).

2.2 TMD is the registered owner of the premises at 39-43 Thomas Mitchell Drive, Muswellbrook NSW (***Premises***). The premises are the major asset of TMD.

2.3 TMD holds the Premises on trust for the TMD Unit Trust. The TMD Unit Trust consists of 100 units, 92 of which are held by Scott Farrell, with the remaining 8 units being held by JMAA.

2.4 In 2010 TMD constructed a fit-for-purpose facility on the property. Since 1 October 2012, Subzero Holdings Pty Limited ABN 74 153 511 512 (***Holdings***), a wholly-owned subsidiary of the Company, has leased the whole of the Premises from TMD. Rental payable by Holdings under the lease, as of 1 October 2014, will be $1,138,500 per annum (plus GST).

2.5 The Premises are directly across Thomas Mitchell Drive from the Mount Arthur Coal Mine, which is owned and operated by BHP Billiton Limited ABN 49 004 028 077, a major customer of a number of subsidiaries of the Company.

2.6 The location of the Premises adjacent to the Mount Arthur Coal Mine provides the Company and its subsidiaries with a significant strategic advantage over their competitors in relation to the provision of services to BHP Billiton Limited.

2.7 As announced on 16 April 2014, the Company recently replaced its debtor financing facility with a new working capital facility provided by a syndicate of lenders led by Macquarie Bank Limited (***MBL***). Terms of the new facility include the condition that the Company must acquire the shares in, or assets of, TMD or provide a guarantee by 30 June 2014. The Company has negotiated with MBL for the date to be extended to 30 September 2014.

2.8 On the basis of the above, the directors of the Company have determined that the Company should proceed by way of purchase of all of the issued ordinary share capital in TMD, being 1 ordinary share together with all of the units in the TMD Unit Trust, being 100 units. Accordingly, the directors propose that the Company enter into the Share and Unit Sale Agreement with Mr Farrell and JMAA.

2.9 Mr Farrell is a director of the Company, making him a related party of the Company. TMD, being a company controlled by a related party of the Company, is therefore also a related party of the Company. JMAA is also a related party of the Company, as a result of acting in concert with Mr Farrell in entering into the Share and Unit Sale Agreement.

2.10 Entities in which Mr Farrell has power to control the exercise of the voting rights, or in which Mr Farrell has control over the beneficial owners of the issued equity securities, currently hold 53,585,593 issued shares in the Company. Accordingly, Mr Farrell currently has voting power in the Company of 21.19%.

2.11 An independent valuation of the Premises was obtained from Tew Property Consultants on 17 Aril 2014 which valued the Premises at $11,900,000.

2.12 Following the revaluation of the Premises, the balance sheet of the TMD Unit Trust as at 30 June 2014 states that the net assets of the TMD Unit Trust were $3,332,000.

2.13 The net asset value of the TMD Unit Trust was calculated by deducting the amount of the debt owed to Macquarie Bank Limited and the amount owed to trade creditors from the value of the Premises.

2.14 The Company has negotiated the consideration to be paid for the purchase of all of the issued ordinary share capital in TMD, together with all of the units in the TMD Unit Trust under the Share and Unit Sale Agreement to be an amount equal to the net asset value of the TMD Unit Trust.

2.15 By executing the Share and Unit Sale Agreement and giving effect to the transactions contemplated therein, the Company may be regarded as giving a financial benefit to both Mr Farrell and TMD and JMAA in relation to the purchase of the shares and units.

2.16 Under section 208(1) of the Corporations Act, if a public company proposes to give a financial benefit to a related party of the public company, the public company must obtain the approval of the public company's members prior to giving the benefit, and must give the benefit within 15 months of the approval**.**

2.17 Under section 606(1) of the Corporations Act, a person is prohibited from acquiring a relevant interest in a listed company through a transaction in relation to securities entered into by the person if, because of that transaction, that person's or someone else's voting power in the company will increase from a starting point that is above 20%, unless one of the exemptions in section 611 applies. These exemptions include (in section 611(7)) an acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made, if no votes are cast in favour of the resolution by the person proposing to make the acquisition and their associates, or the persons (if any) from whom the acquisition is to be made and their associates.

2.18 Under the ASX Listing Rules, a listed public company is also required to obtain the approval of its members in relation to**:**

(a) the issue in any 12 month period of equity securities in excess of 15% of the issued share capital of the Company at the commencement of the period;

(b) the acquisition of a substantial asset from a related party; or.

(c) the issue of equity securities to a related party.

2.19 Under section 254X of the Corporations Act, if shares are issued for non-cash consideration under a written contract, the company must inform ASIC by lodging the following two forms within 28 days after the issue:

(a) Form 484 (Section C)

(b) Form 207Z *Certification of compliance with stamp duty law* (This form certifies that the company has paid all state and territory stamp duties associated with the written contract.).

A public company must also lodge either a copy of the written contract or a Form 208 *Notification of details of shares issued other than for cash.*

2.20 An independent expert's report is attached to this Notice of Extraordinary General Meeting as required by ASX Listing Rule 10.1 and section 606 of the *Corporations Act 2001* (Cth). The report assesses whether the transaction the subject of the resolution in this Notice of Extraordinary General Meeting, is fair and reasonable to the Non-Associated Members.

2.21 The background and reasons behind the resolution are more fully set out in the accompanying explanatory statement. Members should read the explanatory statement in full and carefully consider its contents.

3 Accompanying documents

The following documents accompany this notice:

(a) explanatory statement in relation to the resolution;

(b) independent expert's report on the transaction prepared by William Buck Chartered Accountants.

By order of the board of directors

Date	27 August 2014
Signature	Andrew Cooke
Name (print)	Andrew J. Cooke Joint Company Secretary

Voting and proxies

Voting

The Company has determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Company's shares quoted on Australian Stock Exchange Limited at *4pm on 22 September 2014* will be taken, for the purposes of the extraordinary general meeting, to be held by the persons who held them at that time. Accordingly those persons are entitled to attend and vote at the meeting.

Proxies

A shareholder who is entitled to attend and vote at the meeting may appoint up to two proxies to attend and vote on behalf of that shareholder. Please contact Andrew Cooke, Company secretary, if you require an additional proxy form.

If a shareholder appoints two proxies, the appointment of the proxies may specify the proportion or the number of that shareholder's votes that each proxy may exercise. If the appointment does not so specify, each proxy may exercise half of the votes. Fractions of votes will be disregarded.

Where a shareholder appoints more than one proxy, neither proxy is entitled to vote on a show of hands.

A proxy need not be a shareholder of the Company.

To be effective, the Company must receive the completed proxy form and, if the form is signed by the shareholder's attorney, the authority under which the proxy form is signed (or a certified copy of the authority) by no later than ***10.00am*** **(AEST)** on ***28 September 2014***

Proxies may be lodged either::

a) **by mailing** the relevant accompanying Proxy Forms to:
Link Market Services
Locked Bag A14
Sydney South, NSW, 1235

b) **by faxing** the relevant accompanying Proxy Forms to:+61 2 9287 0309; or

c) **online** by visiting www.linkmarketservices.com.au and following the instructions in your relevant Proxy Forms to submit your voting intentions.

Proxies given by corporate shareholders must be executed in accordance with their constitutions, or signed by a duly authorised officer or attorney.

A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.

If a shareholder appoints the chairperson of the meeting as the shareholder's proxy and does not specify how the chairperson is to vote on an item of business, the chairperson will vote, as proxy for that shareholder, in favour of that item on a poll.

EXPLANATORY STATEMENT ACCOMPANYING NOTICE OF EXTRAORDINARY GENERAL MEETING

SUBZERO GROUP LIMITED

ABN 68 009 161 522

THIS EXPLANATORY STATEMENT SHOULD BE READ IN ITS ENTIRETY. IF SHAREHOLDERS ARE IN DOUBT AS TO HOW TO VOTE, THEY SHOULD SEEK ADVICE FROM THEIR ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISER WITHOUT DELAY.

AN INDEPENDENT EXPERT'S REPORT FROM WILLIAM BUCK CHARTERED ACCOUNTANTS IS ATTACHED TO THIS EXPLANATORY STATEMENT, AS REQUIRED BY ASX LISTING RULE 10.1 AND SECTION 606 OF THE CORPORATIONS ACT 2001 (CTH). THE REPORT CONCLUDES THAT THE TRANSACTION THE SUBJECT OF THE RESOLUTION IN THE NOTICE OF MEETING, IS NOT FAIR BUT IS REASONABLE TO THE COMPANY'S NON-ASSOCIATED SHAREHOLDERS, FOR THE REASONS SET OUT IN THE REPORT.

EXPLANATORY STATEMENT

1 Introduction

1.1 This explanatory statement is given to members of the Company for the purpose of section 219 of the Corporations Act.

1.2 It contains all information known to the Company or any of its directors that is reasonably required by members in order to decide whether or not it is in the company's interests to pass the resolution set out in the accompanying notice to members. The resolution may involve the giving of financial benefits by the Companies to related parties of the Company.

1.3 Certain terms and expressions used in this explanatory statement are defined in paragraph 19.

2 The share acquisition

2.1 Under the draft Share and Unit Sale Agreement, a copy of which is found in Annexure 2 to this explanatory statement, the Company proposes to acquire the entire issued ordinary share capital of TMD from the Vendor together with all of units in the TMD Unit Trust from Scott Farrell and JMAA.

2.2 The purchase of the shares and units is subject to the satisfaction of certain conditions precedent. Those conditions precedent are expected to be satisfied, and completion of the acquisition is expected to occur on or about 30 September 2014.

3 Sections 208, 228 and 229 of the Corporations Act

3.1 Under section 208 of the Corporations Act, for a public company to give a financial benefit to a related party of the public company, the public company must**:**

(a) obtain the approval of the public company's members; and

(b) give the benefit within 15 months of the approval.

3.2 Under section 228 of the Corporations Act, related parties of a public company include:

(a) a director of the public company; and

(b) an entity controlled by a person who is a director of the public company.

3.3 Under section 229(3) of the Corporations Act, a company may be regarded as giving a financial benefit to a related party if it:

(a) buys an asset from or sells an asset to the related party; or

(b) issues securities or grants an option to the related party; or

(c) takes up or releases an obligation of the related party.

4 Section 606 of the Corporations Act

4.1 Under section 606(1) of the Corporations Act, a person is prohibited from acquiring a relevant interest in issued voting shares of a listed company through a transaction in relation to securities entered into by or on behalf of the person if, because of the transaction, that person's or someone else's voting power in the company increases from a starting point that is above 20%, unless one of the exemptions in section 611 applies.

4.2 Section 611(7) provides that:

> An acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made, if:
>
> (a) no votes are cast in favour of the resolution by:
>
> (i) the person proposing to make the acquisition and their associates; or
>
> (ii) the persons (if any) from whom the acquisition is to be made and their associates; and
>
> (b) the members of the company were given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution, including:
>
> (i) the identity of the person proposing to make the acquisition and their associates; and
>
> (ii) the maximum extent of the increase in that person’s voting power in the company that would result from the acquisition; and
>
> (iii) the voting power that person would have as a result of the acquisition; and
>
> (iv) the maximum extent of the increase in the voting power of each of that person’s associates that would result from the acquisition; and
>
> (v) the voting power that each of that person’s associates would have as a result of the acquisition.

5 ASX Listing Rules 7.1, 10.1 and 10.11

5.1 Under Listing Rule 7.1, an entity must not issue or agree to issue more equity securities than the amount which represents 15% of the number of fully paid ordinary securities on issue 12 months before the issue date or date of agreement to issue without the approval of holders of ordinary securities.

5.2 Under Listing Rule 10.1, an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to, a related party without the approval of the holders of the entity's ordinary securities.

5.3 A substantial asset is defined as an asset for which the value, or the value of the consideration for it, is 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules.

5.4 Under Listing Rule 10.11, the issue by an entity of equity securities to a related party of the entity requires the approval of the holders of the entity's ordinary securities.

6 The giving of financial benefits to related parties

6.1 As Scott Farrell is a director of the Company, he is therefore a related party of the Company by virtue of section 228 of the Corporations Act.

6.2 Further TMD is also a related party of the Company, since Scott Farrell is the sole shareholder of TMD and the holder of 92 units in the TMD Unit Trust.

6.3 JMAA is also a related party of the Company by virtue of its association with Scott Farrell as a unit holder in the TMD Unit Trust.

6.4 As part of the Share and Unit Sale Agreement, it is proposed that the Company:

(a) purchase the entire issued share capital in TMD and all of the units in the TMD Unit Trust from the Vendors, being 1 share and 100 units;

(b) issue a maximum of 28,320,000 ordinary equity securities in the capital of the Company to the Vendors no later than 29 September 2014 to a maximum value equivalent to $2,605,440 to Scott Farrell and $226,560 to JMAA, with the number of shares to be issued to the Vendors calculated in accordance with the Weighted Average Share Price (as defined in the Share and Unit Sale Agreement); and

(c) provide certain security and guarantees in relation to the facility of $6,500,000 granted to TMD by a syndicate of lenders led by Macquarie Bank Limited; and

(d) retain an amount of $500,000 to be used to pay for the cost of renovations to the Premises.

6.5 The Company entering into, and performing obligations under, the Share and Unit Sale Agreement will constitute the giving of a financial benefit to a related party, and the Company therefore requires the prior approval of members.

7 Acquisition of a relevant interest in voting shares and dilution of existing shareholdings

7.1 The current shareholdings of the Vendors and their associates are set out in the table in Appendix 1.

7.2 Under the Share and Unit Sale Agreement, the Company proposes to issue a maximum of 28,320,000 ordinary equity securities to the Vendors. The proposed shareholdings in the Company after the issue of shares are also set out in the table in Appendix 1.

7.3 As a result, the issue of the ordinary equity securities to the Vendors under the Share and Unit Sale Agreement will result in the acquisition by Scott Farrell of a relevant interest in the issued voting shares of the Company, through a transaction entered into by the Vendors, which increases Scott Farrell's voting power from a starting point that is above 20%.

7.4 The Company therefore requires the prior approval of members pursuant to section 611(7) of the Corporations Act before completing the Share and Unit Sale Agreement.

7.5 The proposed issue of a maximum 28,320,000 ordinary equity securities will also have the effect of diluting the shareholdings of existing members of the Company. The effect of this dilution is set out in the table in Annexure 1.

8 Issue of Shares in excess of 15%

8.1 Under the Share and Unit Sale Agreement, the Company proposes to issue a maximum of 28,320,000 ordinary equity securities in the capital of the Company to the Vendors no later than 30 September 2014 to a value equivalent to $2,832,000, with the exact number of shares to be issued to the Vendors to be calculated in accordance with the Weighted Average Share Price (as defined in the Share and Unit Sale Agreement).

8.2 As a result, the Company entering into and performing obligations under the Share and Unit Sale Agreement may result in the Company agreeing to issue equity securities which represent greater than 15% of the number of fully paid ordinary securities in the Company on issue 12 months before the date of the Share and Unit Sale Agreement, and the Company therefore requires the prior approval of members.

9 Acquisition of substantial asset

9.1 Under the Share and Unit Sale Agreement, the Company proposes to acquire the share in TMD from Scott Farrell and the units in the TMD Unit Trust from Scott Farrell and JMAA for a maximum consideration of $3,332,000, subject to the following:

(a) a maximum of $2,832,000 of the consideration payable under the Share and Unit Sale Agreement shall be satisfied by the Company by the issue to the Vendors of a maximum of 28,320,000 ordinary equity securities in the capital of the Company no later than 30 September 2014 to a maximum value equivalent to $2,605,440 to Scott Farrell and $226,560 to JMAA, with the number of shares to be issued to the Vendors calculated in accordance with the Weighted Average Share Price (as defined in the Share and Unit Sale Agreement); and

(b) the retention of an amount of $500,000 to be used to pay for the cost of renovations to the Premises.

9.2 As a result, the Company entering into and performing obligations under the Share and Unit Sale Agreement may result in the Company acquiring an asset which has a value of 5% or more of the equity interest in the Company as set out in the latest accounts given to ASX under the Listing Rules, and the Company therefore requires the prior approval of members.

10 Issue of equity securities to a related party

10.1 Under the Share and Unit Sale Agreement the Company proposes to pay part of the purchase price to the Vendors by way of the issue of a maximum of 28,320,000 equity securities in the Company.

10.2 Scott Farrell is a related party of the Company by virtue of his position as a director of the Company. JMAA is a related party of the Company by virtue of its acting in concert with Scott Farrell in relation to the Share and Unit Sale Agreement based on the understanding that Scott Farrell will receive a financial benefit if the Company gives JMAA a financial benefit.

10.3 As a result, the Company requires the prior approval of members before issuing equity securities to Scott Farrell and JMAA.

11 Advantages of giving the financial benefit

11.1 The Premises are the sole asset of TMD. The Premises are directly across Thomas Mitchell Drive in Muswellbrook from the Mount Arthur Coal Mine, which is owned and operated by BHP Billiton Limited ABN 49 004 028 077, a major customer of several subsidiaries of the Company. The location of the Premises adjacent to the Mount Arthur Coal Mine provides the Company and its subsidiaries with a significant strategic advantage over their competitors in relation to the provision of services to BHP Billiton Limited and directly results in BHP Billiton Limited using the Company's services. Accordingly, the Premises are critical to the business and profitability of the Company. Acquisition of the share in TMD and the units in the TMD Unit Trust, which will consequently bring ownership of the Premises inside the SubZero Group, will secure the Company's right to use the Premises and ensure security of tenure, and will therefore be of significant commercial benefit to the Company.

11.2 Since 1 October 2012, Holdings has leased the whole of the Premises from TMD. From 1 October 2014, rental payable by Holdings under the lease will be $1,138,500 per annum (plus GST). Acquisition of the share in TMD and the units in the TMD Unit Trust, which will consequently bring ownership of the Premises inside the SubZero Group, will therefore result in considerable savings to the SubZero Group.

11.3 An independent valuation of the Premises was obtained from Tew Property Consultants on 17 April 2014, which valued the Premises at $11,900,000.

11.4 Following the revaluation of the Premises, the balance sheet of the TMD Unit Trust as at 30 June 2014 states that the net assets of the TMD Unit Trust were $3,332,000.

11.5 The net asset value of the TMD Unit Trust was calculated by deducting the amount of the debt owed to Macquarie Bank Limited and the amount owed to trade creditors from the value of the Premises.

11.6 The Company has negotiated the consideration to be paid for the purchase of all of the issued ordinary share capital in TMD, together with all of the units in the TMD Unit Trust under the Share and Unit Sale Agreement to be an amount equal to the net asset value of the TMD Unit Trust on an arms-length basis. No premium or excess above the market value is being paid by the Company, and accordingly, from an economic and commercial point of view, the Company believes that the potential costs of giving the financial benefit are realistic and appropriate.

11.7 There is no benefit being foregone by the Company in relation to giving the financial benefit, as the SubZero Group is obtaining a strategic and beneficial asset in return for giving the financial benefit.

12 Disadvantages of giving the financial benefit

12.1 The acquisition of the share in TMD and the units in the TMD Unit Trust will have taxation consequences for the Company. Since TMD is a land-rich landholder, the purchase of the share in TMD and the units in the TMD Unit Trust will result in the Company being liable for Landholder Duty. This duty is chargeable at the transfer of land rate on the unencumbered land holdings of the landholder. However, structuring the transaction by way of direct purchase of the Premises (rather than the acquisition of the TMD share and TMD Trust units), would have equivalent taxation consequences for the Company, as stamp duty would be payable on the purchase of the Premises at the transfer of land rate.

12.2 As detailed in clause 7.5, the issue of equity securities to the Vendors will have the effect of diluting the shareholdings of existing members by approximately 10.07%.

13 Findings of the Independent Expert's Report

13.1 To ensure that members are fully informed, the Company is providing members with:

(a) certain information, which is set out in this Explanatory Statement; and

(b) an assessment of whether the transaction which is the subject of the resolution is considered by an independent expert to be fair and reasonable, or not, as required by ASX Listing Rule 10.1 because the transaction involves the acquisition of a substantial asset from a substantial holder of the Company.

13.2 The Company has engaged William Buck Chartered Accountants to provide the independent expert's report which accompanies this Explanatory Statement concerning the proposed transaction which is the subject of the resolution. The report assesses whether the price paid by the Company for the share in TMD and the units in the TMD Unit Trust, including the issue of equity securities to Scott Farrell, who already has voting power in the Company greater than 20%, is fair and/or reasonable. Before voting, members are encouraged to read the report in its entirety.

13.3 The independent expert's report concludes that the transaction the subject of the resolution is **not fair** to the Non-Associated Members but is reasonable.

13.4 The report finds that the transaction the subject of the resolution is **not fair** to Non-Associated Members because:

(a) the value of their shareholdings will be reduced by 10.07% as a result of the transaction

(b) the valuation of the Company pre-transaction on a control basis exceeds the independent expert's valuation of the Company post transaction on a minority basis

(c) the shareholding of the majority shareholder and his associates will increase which may adversely affect the liquidity of the Company's share trading.

13.5 In its report, William Buck concludes that the transaction the subject of the resolution is **reasonable** to Non-Associated Members because the value of consideration payable to the Vendors for the share in TMD and the units in the TMD Unit Trust is equal to 100% of the net asset value of TMD and the TMD Unit Trust. Principally, the Non-Associated Members will benefit from the proposed transaction due to:

(a) increased access to working capital and lower funding costs

(b) the Company securing the right to use the Premises

(c) a decrease in the risk profile due to the decrease in the debt to equity ratio.

13.6 William Buck concludes in its report that the transaction the subject of the resolution is **not fair, but is reasonable** to the Non-Associated Shareholders because on balance the advantages of approving the transaction the subject of the resolution outweigh the disadvantages, and the disadvantages of rejecting the transaction the subject of the resolution outweigh the advantages.

14 Recommendation of directors

14.1 The directors (other than Scott Farrell) consider that the proposed transaction is not fair but is reasonable for the Non-Associated Members, based on the information set out in this Explanatory Statement, including:

(a) the value of the financial benefit being offered by the Company to Scott Farrell and JMAA is equal to the value of the assets being acquired;

(b) the special value of the transaction to the Company due to the critical importance of the Premises to the Company's business;

(c) the lack of alternative available options and the missed opportunities if the status quo is retained;

(d) the financial situation of the Company;

(e) the benefits set out in 13.5 above.

14.2 The directors of the Company recommend the resolution for the reasons set out in the Chairman's letter to shareholders and in paragraph 11 of this Explanatory Statement and on the basis that the advantages of the proposal outweigh the disadvantages:

(a) Bruce Arnott recommends that members vote in favour of the resolution for the reasons specified in the Chairman's letter to members,

(b) Graeme William Clayton recommends that members vote in favour of the resolution for the reasons specified in the Chairman's letter to members,

(c) Malcolm Geoffrey Jackman recommends that members vote in favour of the resolution for the reasons stated in his letter to members as Chairman of the Company's Board;

(d) Francis Michael O'Halloran recommends that members vote in favour of the resolution for the reasons specified in the Chairman's letter to members.

Scott Michael Farrell did not participate in the resolution to consider the proposed resolution as he has a personal interest in the outcome of the resolution, being the sole shareholder of TMD, a unit holder of the TMD Unit Trust and a Vendor under the Share and Unit Sale Agreement. Accordingly, he makes no recommendation to members in relation to the resolution.

15 Notice to ASIC

Copies of the notice to members of the proposed resolution, this explanatory statement, and the independent expert's report by William Buck Chartered Accountants were lodged with the Australian Securities and Investments Commission before being sent to the members, in accordance with section 218(1) of the *Corporations Act*.

16 Disclosure of information

The directors consider that this explanatory statement contains all information known to the Company or to any of its directors that is reasonably required by members in order to decide whether or not it is in the Company's interest to pass the proposed resolution on how to vote on the proposed resolution, other than information that it would be unreasonable to require the Company to disclose because the Company has previously disclosed the information to its members.

17 Inspection of documents

Copies of the Share and Unit Sale Agreement, independent expert’s report by William Buck Chartered Accountants and Premises valuation report are available for inspection on request to the Company Secretary, whose details are set out in paragraph 20.

18 Accompanying documents

These documents accompany this explanatory statement:

(a) Notice to Members of Extraordinary General Meeting; and

(b) independent expert's report on the transaction prepared by William Buck Chartered Accountants.

19 Defined terms and interpretation

19.1 In explanatory statement:

ASX means ASX Limited ACN 008 624 691

Company means SubZero Group Limited ABN 68 009 161 522.

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

Holdings means Subzero Holdings Pty Limited ABN 74 153 511 512, a wholly owned subsidiary of the Company.

JMAA means J M Auto Australia Pty Ltd ACN 111 132 999 as trustee for the JM Investments Trust.

Listing Rules means the Listing Rules of ASX.

Non-Associated Members means those members of the Company whose votes are not to be disregarded under the Voting Exclusion Statement.

Premises means the land known as 39-43 Thomas Mitchell Drive, Muswellbrook NSW 2333.

Share and Unit Sale Agreement means the share and unit sale agreement between the Company, Scott Michael Farrell, JMAA and TMD dated 8 August 2014.

Sub Zero Group means the Company and its subsidiaries.

TMD means TMD Investments Pty Ltd ACN 159 789 036.

Vendors means Scott Michael Farrell and JMAA.

19.2 In this explanatory statement, except where the context requires otherwise:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning; and

(c) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time.

20 Further information

If you have any questions or need more information, please contact Andrew Cooke, Company secretary:

Telephone:	+61 412 090 826
Fax:	+61 2 6540 9444
Email:	ajccorporate@bigpond.com

By order of the board of directors

Date	27 August 2014
Signature	
Name (print)	Andrew J. Cooke Joint Company Secretary

SUBZERO GROUP LIMITED

APPENDIX 1 - Table of Shareholdings

Shareholder Name	Holding	%	Issue of shares	Holding	%
	as at 30 July 2014			following proposed share issue	
Citicorp Nominees	24,163,987	9.55%		24,163,987	8.6%
Scott Farrell	53,585,593	21.19%	28,320,000	81,905,593	29.1%
HSBC Custody	14,472,347	5.72%		14,472,347	5.1%
O' Halloran Super Fund	9,989,191	3.95%		9,989,191	3.6%
PPK	9,062,500	3.58%		9,062,500	3.2%
Portfolio Services	6,500,000	2.57%		6,500,000	2.3%
Butler Jones Project	6,021,584	2.38%		6,021,584	2.1%
Avanteos Investments	5,000,000	1.98%		5,000,000	1.8%
Contemplator Pty Ltd	4,994,525	1.97%		4,994,525	1.8%
Turbot Investments	4,914,900	1.94%		4,914,900	1.7%
Pebede Pty Ltd	7,236,188	2.86%		7,236,188	2.6%
Wavet No2 Fund	3,657,060	1.45%		3,657,060	1.3%
Kai Lani Mackerel Pty Ltd	3,082,133	1.22%		3,082,133	1.1%
Corso Management	3,033,334	1.20%		3,033,334	1.1%
Catherine Maree Jordan	3,000,000	1.19%		3,000,000	1.1%
Onmell Pty Ltd	2,800,000	1.11%		2,800,000	1.0%
Hapidayz Super Pty Ltd	2,592,700	1.03%		2,592,700	0.9%
G&P Investments	2,555,366	1.01%		2,555,366	0.9%
Carlie Watson	2,400,000	0.95%		2,400,000	0.9%
				-	
Balance of register	83,853,994	33.15%		83,853,994	29.8%
				-	
Total	**252,915,402**	**100.00%**		**281,235,402**	**100.0%**

APPENDIX 2 - INDEPENDENT EXPERTS REPORT FROM WILLIAM BUCK

SubZero Group Limited

Independent Expert's Report and Financial Services Guide

8 August 2014

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

8 August 2014

The Directors
SubZero Group Limited
Level 1, 39 - 43 Bridge Street
Muswellbrook NSW 2333

Dear Sirs,

SubZero Group Limited

Independent Expert's Report: Acquisition of TMD Investments Pty Ltd and TMD Unit Trust

Introduction

The Directors of SubZero Group Limited ("**Directors**" and "**SZG**" or the "**Company**" respectively) have engaged William Buck Corporate Advisory Services (NSW) Pty Limited ("**William Buck**" or "**we**" or "**us**" or "**our**" as appropriate) to prepare an Independent Expert's Report ("**Report**") in relation to the proposed acquisition of all the issued shares in TMD Investments Pty Ltd and all of the units in TMD Unit Trust (collectively referred to as "**TMD**") (the "**Proposed Transaction**").

SZG is a public company listed on the Australian Securities Exchange ("**ASX**") which is involved in the provision of mining services primarily to coal mining operations in the Hunter Valley.

TMD is privately held and its principal activity is to hold an industrial property located at 39 – 43 Thomas Mitchell Drive (the "**Premises**"). TMD is controlled by Mr Scott Farrell ("**Mr Farrell**") who is also the majority shareholder and a director of SZG. SZG is currently the lessee of the Premises.

SZG has entered into a Share and Unit Sale Agreement ("**SSA**") to acquire the entire issued share and the units of TMD. As consideration for all the issued shares and units of TMD, SZG will issue a maximum of 28,320,000 SZG shares and will withhold $500,000 from the purchase price in relation to renovations required to the Premises.

We understand that, on completion of the Proposed Transaction, Mr Farrell and his associates will control an interest in the enlarged share capital of SZG of 29.1%, up from 21.2% prior to the Proposed Transaction.

Further details of the Proposed Transaction are set out in Section 1 of our Report.

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Level 29, 66 Goulburn Street, Sydney NSW 2000
Telephone: +61 2 8263 4000 · Facsimile: +61 2 8263 4111
williambuck.com

Purpose of Report

Corporations Act

The Proposed Transaction is subject to Sections 606 and 611 of the Corporations Act 2001 ("**Act**"). Unless allowed by other provisions, Section 606 of the Act ("**Section 606**") does not allow a person to acquire a relevant interest in shares from a starting point above a 20% interest, and below a 90% interest, in the voting rights of a company. As noted, if the Proposed Transaction is approved, Mr Farrell will increase his voting power in SZG's enlarged share capital from 21.2% to 29.1%.

Section 611 of the Act ("**Section 611**") provides an exemption to Section 606 if the Proposed Transaction is approved by a resolution of the shareholders at a general meeting called for that purpose.

Section 611 requires shareholders to be given all relevant information known to the person making the acquisition, their associates or the company, which is material to the proposal.

Whilst Section 611 does not explicitly state that an expert's opinion is required in relation to such acquisitions, regulatory guidance issued by the Australian Securities and Investments Commission ("**ASIC**") states that it is the Directors' obligation to provide shareholders with full and proper disclosure so as to enable them to assess the merits of the proposal, and to decide whether to agree by resolution to the proposed acquisition. This obligation may be satisfied by commissioning an independent expert's report on whether the proposed transaction is "fair" and "reasonable" to the non-associated shareholders. The non-associated shareholders are those shareholders in SZG whose votes are not to be disregarded in voting on the resolutions relating to the Proposed Transaction ("**Non-Associated Shareholders**").

ASX Limited Listing Rules

The Proposed Transaction is also subject to the provisions of ASX Limited's ("**ASX**") Listing Rules ("**ASX Listing Rules**"). ASX Listing Rule 10 ("**ASX Listing Rule 10**") relates to transactions with persons in a position of influence. We understand that the provisions of ASX Listing Rule 10 apply on the basis that Mr Farrell holds controlling interests in both SZG and TMD and Mr Farrell is currently a director of both SZG and TMD.

This Report is to accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum ("**EM**") being provided to the shareholders of SZG ("**Shareholders**") and has been prepared to assist the Directors in fulfilling their obligation to provide Shareholders with full and proper disclosure so as to enable them to assess the merits of the Proposed Transaction and to assist them in their consideration of whether or not to approve resolutions relating to the Proposed Transaction.

The purpose of our Report is to express an opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of SZG.

Our Report has been prepared solely for use of the Directors of SZG, and for the purpose set out herein. William Buck does not accept any responsibility for the use of our Report outside this purpose. Except in accordance with the stated purpose, no extract, quote, or copy of our Report, in whole or in part, should be reproduced without the written consent of William Buck, as to the form and context in which it may appear.

Scope of Report

Our procedures in preparing this Report have been limited to those procedures we believed are required in order to form our opinion. Our procedures included an analysis of financial information and accounting records. However, the procedures did not include verification work nor did they constitute:

— an audit in accordance with Australian Accounting Standards ("**AUS**");

— an assurance engagement in accordance with Australian Standards on Assurance Engagements ("**ASAE**"); or

— a review in accordance with Australian Standard on Review Engagements ("**ASRE**").

The assessment of whether or not the Proposed Transaction is fair and reasonable will necessarily involve us determining the "fair market value" of various securities, assets and interests. For the purposes of our opinion, the term "fair market value" is generally 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.

We have not considered special value in forming our opinion. Special value is the amount which a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

We have treated any valuations undertaken in connection with our assessment of the Proposed Transaction as "full scope valuations" under Accounting Professional and Ethical Standard ("**APES**") 225 – Valuation Services.

By their very nature, any valuation assessment is necessarily the subject of uncertainty and volatility and the conclusions arrived at will include considerations that are dependent on the exercise of individual judgement. Accordingly, there is unlikely to be an "indisputable value", and we have expressed our opinion regarding values as falling within a likely range.

Bases of Evaluation

In assessing the Proposed Transaction, we have considered the provisions of the Act, the matters set out in various ASIC Regulatory Guides ("**RG**"), and any other relevant pronouncements insofar as they may be applicable to this Report, including the following:

— RG 111: Content of Expert Reports;

— RG 112: Independence of Experts; and

— RG 170: Prospective Financial Information.

In addition, we have had regard to the provisions of various APESs, including APES 225: Valuation Services.

As there is no legal definition of the expression fair and reasonable in the Act, we have considered guidance provided by the RGs in assessing whether the Proposed Transaction is fair and reasonable from the perspective of the Non-Associated Shareholders.

RG 111 treats “fair” and “reasonable” as two distinct criteria. The transaction is “fair” if the value of the consideration offered is equal to or less than the value of the securities or assets being acquired and which are the subject to the transaction. The transaction will be “reasonable” if it is fair, or, despite being not fair, after considering other significant factors, there are sufficient reasons for the shareholders to accept the transaction.

In our opinion, the most appropriate basis on which to evaluate the Proposed Transaction is to assess the likely overall impact on the Non-Associated Shareholders and to form a judgement as to whether the expected benefits outweigh any disadvantages that might result from approving the transaction.

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered and compared the following:

— the fair market value of shares in SZG on a control basis prior to the Proposed Transaction with the fair market value of shares in SZG subsequent to the Proposed Transaction on a minority basis;

— the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is approved; and

— the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is not approved.

If applicable, we have considered whether or not an appropriate premium (for control or significant influence) is reflected in the consideration under the Proposed Transaction.

In our opinion, the Proposed Transaction is to be judged in terms of its overall effect. It is not meaningful to assess the individual elements of the Proposed Transaction separately.

Information

This Report is based upon financial and other information provided by SZG and TMD and made available to us up to the date of the Report. A list of specific documents referred to and relied upon in the preparation of our Report has been included at Appendix A. A listing of defined terms and abbreviations used in this Report is set out in Appendix B.

William Buck has considered and relied upon the information provided by SZG and TMD. William Buck believes the information provided to be reliable, complete and not misleading, and has no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable.

William Buck does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, 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.

As the assets of TMD primarily comprise an industrial property, in accordance with ASIC Regulatory Guide 111 we have utilised the services of the property valuation firm Tew Property Consultants (“**TPC**”) for the purpose of valuing the industrial property held by TMD. Further details in respect of the valuation prepared by TPC (the “**TPC Report**”) are set out in Section 8 of this Report.

We reserve the right to review and amend all calculations and opinions included or referred to in our Report and, if we consider it necessary, to revise our Report in light of any information which becomes known to us after the date of the Report or if additional information not referred to in Appendix A is provided to us.

We note that an important part of the information base used in forming an opinion of the kind set out in this Report, consists of opinions and judgements of management. This type of information has been evaluated through analysis, enquiry and review to the extent practical. Often it is not possible, however, to externally verify or validate such information.

The statements and opinions expressed in this Report are made in good faith and have been based on information available as at the date of this Report. On completion of our review, we believe the information to be reliable, accurate, and prepared on a reasonable basis. We have relied upon information set out in Appendix A and have no reason to believe that any material information has been withheld from us. We have not performed anything in the nature of an audit or financial due diligence on the information provided for this opinion. No warranty of accuracy or reliability is given by William Buck or its affiliated companies and their respective officers and employees in relation to this information.

The opinions of William Buck are based on prevailing market, economic and other conditions at the date of this Report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion.

Prospective Financial Information

The information reviewed included prospective financial information with respect to SZG, supporting recent earnings guidance provided by SZG to the market. The achievability of the prospective financial information is not warranted or guaranteed by either SZG or William Buck.

William Buck has not been engaged to undertake an independent review of the prospective financial information of SZG in accordance with ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information or RG 170, and have not undertaken such a review. Further, we have not commissioned a third party to undertake such a review. Accordingly, we do not express an opinion on the reasonableness of the assumptions underlying the projections, or their achievability. However, as explained in Section 7 of our Report we have considered the prospective financial information for the purpose of undertaking our assessment and evaluation of the Proposed Transaction.

Qualifications and Independence

Details of the experience and qualifications of the William Buck staff responsible for the preparation of this Report and independence of William Buck in connection to SZG, TMD and the Proposed Transaction which is the subject of this Report are set out in Section 10 of this Report.

Summary of Opinion

We have considered the terms of the Proposed Transaction and conclude that the Proposed Transaction is **not fair** but is **reasonable** to the Non-Associated Shareholders of SZG.

Value Considerations

Based on our analysis, we set out below a summary of our valuation opinion in respect of the Proposed Transaction comprising a comparison between the fair market value of shares in SZG on a control basis prior to the Proposed Transaction with the fair market value of shares in SZG subsequent to the Proposed Transaction on a minority basis.

Table 1 – Assessment of Fairness

	Reference	Low Range ($)	High Range ($)
Pre Proposed Transaction:			
Equity value per share (control basis)	**7.1.1**	**$ 0.0876**	**$ 0.1168**
Post Proposed Transaction:			
SubZero: Equity value (minority basis) ($000)	**7.1.1**	**17,725**	**22,725**
Adjusted net assets of TMD (control basis) ($000)	8.2	2,652	2,652
Ad valorem stamp duty on acquisition of TMD	*Note 1*	(595)	(595)
Minority discount	*Note 2*	(20.00%)	(23.08%)
Adjusted net assets of TMD (minority basis) ($000)		**1,646**	**1,582**
Equity value (minority basis) ($000)		**19,371**	**24,307**
Number of shares ('000)	*Note 3*	281,235	281,235
Equity value per share (minority basis)		**$ 0.0689**	**$ 0.0864**

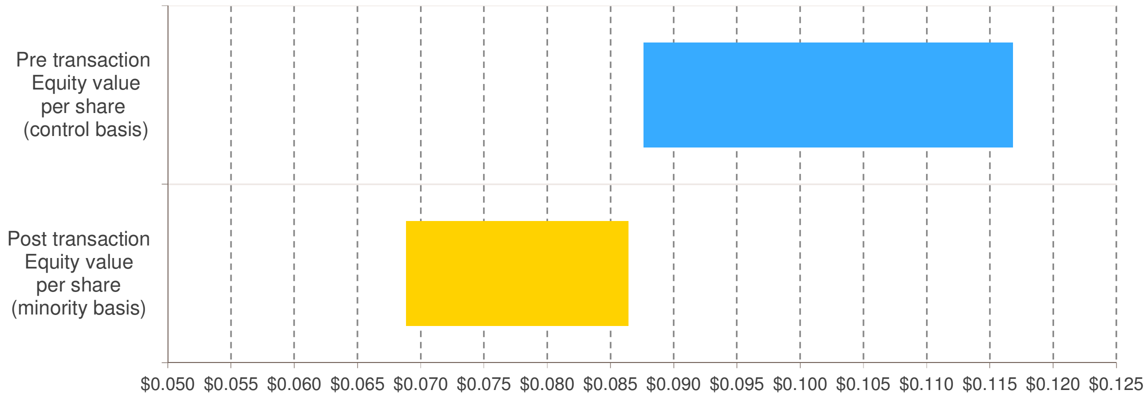
Source: William Buck analysis

Notes:

1. *Stamp duty in relation to the acquisition of TMD has been calculated based on a rate of stamp duty of 5% and the market value of the Premises at $11.9 million.*
2. *The minority discount applicable to TMD has been calculated based on the control premium range adopted in our valuation of SZG using the following formula: Minority Discount = 1 – [1/(1 + Control Premium)].*
3. Post transaction equity value per share has been calculated based on current issued share capital of 252,915,402 ordinary shares plus maximum shares to be issued as part of the Proposed Transaction being 30,550,881.

A graphic representation of the comparison of our valuation ranges is set out below:

Figure 1 – Fairness Assessment



Source: William Buck

It may be seen from the above that our valuation of SZG pre-transaction on a control basis exceeds our valuation of SZG post-transaction on a minority basis.

Accordingly, in our opinion, the Proposed Transaction is considered **not fair** from the perspective of the Non-Associated Shareholders of SZG.

Assessment of Reasonableness of the Proposed Acquisition

We have considered the following factors in determining whether or not the Proposed Transaction is reasonable to the Non-Associated Shareholders of SZG.

Advantages of approving the Proposed Transaction

The following may be considered advantages of approving the Proposed Transaction:

Access to working capital funding and lower funding costs

On 16 April 2014, SZG announced that loan documentation had been signed in relation to a new $16 million working capital facility provided by a syndicate of lenders led by Macquarie Bank Limited.

The purpose of the new working capital facility is to replace debtor financing facility of $12.4 million provided by Scottish Pacific Debtor Finance, eliminate an overhang of trade creditors and provide general ongoing working capital to the business. The new facility provides SZG with lower funding costs and additional capacity to manage the business for future growth.

With the downturn in trading in FY13 and the first half of FY14, SZG has had urgent working capital requirements. SZG's debtor financing provided limited working capital due to debtor concentration restrictions applied by Scottish Pacific. At the date at which the Scottish Pacific facility was replaced by the Macquarie Bank facility, SZG management estimates that only $2.9 million was available and drawn down by SZG.

We understand that the Macquarie Bank working capital facility of $16 million has been provided on the basis of the following options, each of which would require approval by SZG shareholders:

— Obtain a cross-guarantee between SubZero Group Limited and TMD Investments Pty Limited ATF TMD Unit Trust; or

— Acquire the issued shares and units of TMD.

TMD holds an investment property valued at $11.9 million which adds to Macquarie Bank's security. Without either providing the cross –guarantee or acquiring TMD, SZG management estimates that the working capital facility available to SZG through Macquarie Bank would have been limited to $14 million.

Secure the right to use the 39 – 43 Thomas Mitchell Drive premises

The premises are the sole asset of TMD and are located directly opposite BHP Billiton Limited's Mount Arthur Coal Mine on Thomas Mitchell Drive in Muswellbrook. The Mount Arthur Coal Mine is a major SZG customer.

SZG management believes that the location of the premises provides SZG with a significant strategic advantage over its competitors in relation to the provision of services to BHP Billiton Limited and directly results in BHP Billiton Limited using SZG's services. Accordingly, SZG management is of the view that the premises are of critical importance to SZG's business and profitability.

Acquisition of TMD secures SZG's right to use of the premises.

Changed risk profile

The Proposed Transaction will result in SZG's debt to equity ratio decreasing from approximately 990% to approximately 515%. The decrease in financial leverage represents a change in the risk profile and a decrease in risk to SZG shareholders.

Arm's length basis

We understand that the terms of the Proposed Transaction were negotiated on an arm's length basis.

Disadvantages of approving the Proposed Transaction

The following may be considered disadvantages of approving the Proposed Transaction:

The Proposed Transaction is "not fair"

Based on valuation of SZG pre-transaction on a control basis our valuation of SZG post-transaction on a minority basis, we have concluded that the Proposed Transaction is not fair from perspective of the Non-Associated Shareholders of SZG.

Dilution of existing SZG shareholders' interests in the SZG

By approving the Proposed Transaction the interests of the Non-Associated Shareholders will be diluted.

Increased interest of majority shareholder

The assumption of the maximum shares to be issued pursuant to the Proposed Transaction, Mr Farrell' (and his associates) interest in SZG will increase from 21.2% to 29.1%.

The presence of such significant shareholding generally both reduces the liquidity of a Company's share trading and reduces the likelihood that the Company will be the target of any potential takeover activity.

Advantages and disadvantages of not implementing the Proposed Transaction

In our view, the significant disadvantages of rejecting the Proposed Transaction include the reverse of the matters noted above, as well as the following:

Requirement to seek alternative shareholder approval

As noted above, per the terms of the MBL working capital facility, MBL requires SZG to either provide cross-guarantee with TMD or to acquire TMD. The Directors of SZG elected to acquire TMD given the strategic importance of the Premises to SZG. If the Proposed Transaction is not approved, SZG will require shareholder approval to provide a cross-guarantee with TMD and there is no guarantee that the share and unit holders of TMD will also wish to enter into the cross-guarantee.

In our opinion, based on a consideration of the above, the Proposed Transaction is considered reasonable from the perspective of the Non-Associated Shareholders of SZG as:

— on balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it to the Non-Associated Shareholders; and

— on balance, the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting it to the Non-Associated Shareholders.

General Advice and Other

General advice

In forming our opinion, we have considered the interests of the Non-Associated Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of the individual Non-Associated Shareholders. It is neither practical nor possible to assess the implication of the Proposed Transaction on individual Non-Associated Shareholders as their individual financial circumstances are not known.

Some Non-Associated Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in our Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable to them and each individual Shareholder must take into account his or her own circumstances when deciding whether or not to vote in favour or against the resolutions relating to the Proposed Transaction. Shareholders should seek their own independent professional advice to assist them in their decision, taking into account their preferences and expectations.

As an individual Non-Associated Shareholder's decision to vote in favour of the Proposed Transaction may be influenced by his or her particular circumstances, we recommend that individual Non-Associated Shareholders obtain financial advice.

Other

William Buck is an Authorised Representative under an appropriate Australian Financial Services Licence. Accordingly, we are required to provide a Financial Services Guide in situations where we may be taken as providing financial product advice. A copy of William Buck's Financial Services Guide is set out in the annexure hereto.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this Report including the appendices.

Yours faithfully,
William Buck Corporate Advisory Services (NSW) Pty Limited
ABN 50 133 845 637
Authorised Representative No. 333393
AFSL 240769

Mark Calvetti
Director

Daniel Coote
Principal

Financial Services Guide

Dated: 8 August 2014

William Buck Corporate Advisory Services (NSW) Pty Ltd ABN 50 133 845 637 ("**William Buck**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

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

The FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide as an Authorised Representative of William Buck Financial Services (NSW) Pty Ltd (Licence No: 240769);
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial Services we are Licensed to Provide

We are an authorised representative of William Buck Financial Services (NSW) Pty Ltd who holds an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- deposit and payment products limited to:
  - basic deposit products;
  - deposit products other than basic deposit products;
- derivatives limited to old law securities options contracts and warrants;
- debentures, stocks or bonds issued or proposed to be issued by a government;
- life products including:
  - investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds; and
  - life risk insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds;
- interests in managed investment schemes including investor directed portfolio services;
- retirement savings accounts products (within the meaning of the Retirement Savings Account Act 1997);
- securities; and
- superannuation.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as an authorised representative of a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may Receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither William Buck, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other Benefits Received by our Employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

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

Associations and Relationships

From time to time William Buck may provide professional services including financial advisory services to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal Complaints Resolution Process

As an authorised representative of a holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Compliance Officer, William Buck, Level 29, 66 Goulburn Street, Sydney NSW 2000.

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

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service. The Financial Ombudsman Service is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry.

Further details about the Financial Ombudsman Service are available at the website www.fos.org.au or by contacting them directly at: the Financial Ombudsman Service, GPO Box 3, Melbourne VIC 3001, or by telephone on 1300 780 808 or by facsimile on (03) 9613 6399.

Professional Indemnity Insurance

William Buck has professional indemnity insurance in place which covers any work done by us, as an authorised representative of William Buck Financial Services (NSW) Pty Ltd and by representatives/employees after they cease to work for us. The compensation arrangements we have in place comply with sec.912B of the Corporations Act.

Contact Details

You may contact us at William Buck, Level 29, 66 Goulburn Street, Sydney, NSW 2000 or by telephone on (02) 8263 4000

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1. The Proposed Transaction

1.1 Overview of Proposed Transaction

SZG has entered into a Share and Unit Sale Agreement to acquire all the issued shares of TMD Investments Pty Ltd ATF TMD Unit Trust and the units of the TMD Unit Trust.

TMD Investments Pty Ltd is wholly owned by Mr Farrell. TMD Unit Trust has 100 units, 92 of which are owned by Mr Scott Farrell and the remaining eight units are owned by J M Auto Australia Pty Ltd ATF the JM Investments Trust ("**JMAA**"). For the purposes of the Proposed Transaction, JMAA is regarded as an associate of Mr Farrell.

As consideration for all the issued shares and units of TMD, SZG will issue a maximum of 28,320,000 SZG shares and will withhold $500,000 from the purchase price in order to carry out renovations of the Premises.

The actual number of shares to be issued by SZG as consideration for the acquisition of TMD will be calculated based on SZG's volume weighted average share sale price for the 30 trading days prior to completion of the Proposed Transaction, subject to a minimum SZG share price of $0.10.

The SSA refers to a purchase price of $3,332,000, assuming an SZG price per share of $0.10, for the shares and units of TMD ("**Purchase Price**"). Per the terms of the SSA, SZG will withhold $500,000 from the Purchase Price in relation to the cost of renovations that are required to TMD's property.

1.2 SZG Capital Structure Pre and Post Approval of the Proposed Transaction

SZG's issued securities prior to the issue of any securities under the Proposed Transaction comprises 252,915,402 ordinary shares.

The ultimate issued securities in SZG if the Proposed Transaction is approved will depend upon the number of shares ultimately issued as part of the Proposed Transaction.

The table below sets out SZG's current and potential issued share capital assuming that the maximum 28,320,000 shares are issued as consideration for TMD.

Table 2 – SZG – Issued Capital Pre and Post Proposed Transaction

Security holder	Pre Proposed Transaction Fully Paid Ordinary Shares		Acquisition of TMD	Post Proposed Transaction Fully Paid Ordinary Shares	
	No. shares	% interest	No. shares	No. shares	% interest
Mr Scott Farrell and associates	53,585,593	21.19%	28,320,000	81,905,593	29.12%
Non-associated shareholders	199,329,809	78.81%	-	199,329,809	70.88%
Total	**252,915,402**	**100.00%**	**28,320,000**	**281,235,402**	**100.00%**

Source: SSA and William Buck analysis

Following completion of the Proposed Transaction, the interest of Mr Farrell and his associates will increase from 21.2% to 29.1%.

Shareholders should refer to the accompanying EM for full details of the Proposed Transaction.

2. Scope and Limitations

2.1 Regulatory Background

Corporations Act

The Proposed Transaction is subject to Sections 606 and 611 of the Act.

Unless allowed by other provisions, Section 606 does not allow a person to acquire a relevant interest in the issued voting shares of a listed company if, by entering into the transaction, their (or someone else's) voting power in the company increases:

— from 20% or below to more than 20%; or

— from a starting point above 20% and below 90%.

As noted in Section 1.2 above, if the Proposed Transaction is approved Mr Farrell will increase his voting interest in SZG from 21.2% to 29.1%.

Section 611 of the Act provides an exemption to Section 606 if the Proposed Transaction is approved by a resolution of the shareholders at a general meeting called for that purpose.

Whilst Section 611 does not explicitly state that an expert's opinion is required in relation to such transactions, regulatory guidance issued by the Australian Securities and Investments Commission ("**ASIC**") states that it is the Directors' obligation to provide shareholders with full and proper disclosure to enable them to assess the merits of a proposed transaction for the purpose of assisting them to decide whether to approve any resolutions relating to the transaction. This obligation may be satisfied by commissioning an independent expert's report on whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders of SZG.

ASX Listing Rules

The Proposed Transaction is subject to the provisions of the ASX Listing Rules. ASX Listing Rule 10 relates to transactions with persons in a position of influence. We understand that the provisions of ASX Listing Rule 10 apply on the basis that Mr Farrell holds controlling interests in both SZG and TMD and Mr Farrell is currently a director of both SZG and TMD.

2.2 Purpose and Scope

Purpose

William Buck has been appointed by the Directors of SZG to prepare an independent expert's report expressing our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of SZG.

This Report is to accompany the EM being provided to the shareholders of SZG and has been prepared to assist the Directors in fulfilling their obligation to provide shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transaction and to assist them in their consideration of whether or not to approve the resolutions relating to the Proposed Transaction.

This Report should not be used for any other purpose and we do not accept any responsibility for use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our report, in whole or in part, should be reproduced without the written consent of William Buck, as to the form and context in which it may appear.

Scope

Section 611 requires shareholders to be given all relevant information known to the persons entering into a transaction, their associates or the company, which is material to the proposed transaction.

The scope of our procedures undertaken have been limited to those procedures we believed are required in order to form our opinion. Our procedures, in the preparation of this Report, may have involved an analysis of financial information and accounting records. However, the procedures did not include verification work nor did they constitute:

— an audit in accordance with AUS;

— an assurance engagement in accordance with ASAE; or

— a review in accordance with ASRE.

The assessment of whether or not the Proposed Transaction is fair and reasonable will necessarily involve the determining the “fair market value” of various securities, assets and interests. For the purposes of our opinion, the term “fair market value” will be 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 their very nature, any valuation assessments are necessarily the subject of uncertainty and volatility and the conclusions arrived at will include considerations that are dependent on the exercise of individual judgement. Accordingly, there is unlikely to be an “indisputable value”, and we have expressed our opinion as to values as falling within a likely range.

We have not considered the effect of the Proposed Transaction on the particular circumstances of individual shareholders. Some individual shareholders may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable to them.

An individual shareholder’s decision in relation to the Proposed Transaction may be influenced by their particular circumstances and, therefore, shareholders should seek independent advice.

2.3 Basis of Evaluation

As there is no legal definition of the expression fair and reasonable in the Act, we have therefore considered guidance provided by ASIC in its RGs in assessing whether the Proposed Transaction is fair and reasonable from the perspective of the Non-Associated Shareholders. Specifically, we will have regard to the provisions of the following:

— RG 111: Content of Expert Reports;

— RG 112: Independence of Experts; and

— RG 170: Prospective Financial Information.

RG 111 treats “fair” and “reasonable” as two distinct criteria. The transaction is “fair” if the value of the consideration offered is equal to or less than the value of the securities or assets acquired and which are the subject to the transaction. The transaction will be “reasonable” if it is fair, or, despite being not fair, after considering other significant factors, there are sufficient reasons for the shareholders to accept the transaction.

In our opinion, the most appropriate basis on which to evaluate the Proposed Transaction is to assess its likely overall impact on the Non-Associated Shareholders and to form a judgement as to whether the expected benefits outweigh any disadvantages that might result from approving the transaction.

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered and compared the following:

— the fair market value of shares in SZG on a control basis prior to the Proposed Transaction with the fair market value of shares in SZG subsequent to the Proposed Transaction on a minority basis;

— the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is approved; and

— the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is not approved.

Where applicable, we have considered whether or not an appropriate premium (for control or significant influence) is reflected in the consideration under the Proposed Transaction.

In our opinion, the Proposed Transaction is to be judged in terms of its overall effect. It is not meaningful to assess the individual elements of the Proposed Transaction separately.

2.4 Reliance on Information

This Report is based upon financial and other information provided by SZG and TMD. We have considered and relied upon this information. We believe the information provided to be reliable, complete and not misleading, and have no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, 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.

As the assets of TMD primarily comprise an industrial property, in accordance with ASIC Regulatory Guide 111 we have utilised the services of the property valuation firm Tew Property Consultants for the purpose of valuing the industrial property held by TMD. Further details in respect of the valuation prepared by TPC are set out in Section 8 of this Report.

Where we have relied on the views and judgement of management the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation. In the context of this Report, the views not capable of direct external verification or validation related principally to matters such as the likely future actions of management and/or the likely future behaviour of competitors.

2.5 Prospective Financial Information

The information reviewed included prospective financial information with respect to SZG, supporting recent earnings guidance provided by SZG to the market. The achievability of the prospective financial information is not warranted or guaranteed by either SZG or William Buck.

William Buck has not been engaged to undertake an independent review of the prospective financial information of SZG in accordance with ASAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information or RG 170, and have not undertaken such a review. Further, we have not commissioned a third party to undertake such a review. Accordingly, we do not express an opinion on the reasonableness of the assumptions underlying the projections, or their achievability. However, as explained in Section 7 of our Report we have considered the prospective financial information for the purpose of undertaking our assessment and evaluation of the Proposed Transaction.

The management of SZG has prepared prospective financial information based on the current operations of SZG and future plans in existence ("**Projections**"). The Projections include income statements for the year ending 30 June 2014 and the year ending 30 June 2015. For the purposes of this Report we understand, and have assumed, that the Projections:

— have been prepared fairly and honestly, on a reasonable basis and are based on the information available to management and the directors of SZG at the time, and within the practical constraints and limitations of such information; and

— do not reflect any material bias either positive or negative.

The Projections are based on assumptions concerning future events and market conditions, some of which are outside the control of SZG. While we understand that the Projections have been prepared with due care and attention, and the directors of SZG consider the assumptions therein to be reasonable, future events and conditions are not accurately predictable and the assumptions and outcomes are subject to significant uncertainties. Assumptions underlying the Projections can be reasonable at the time of their preparation, but can change materially over a relatively short period of time.

In our consideration of the Projections we had regard to various ASIC RGs relating to the use of prospective financial information, including RG 111: Content of expert reports and RG 170: Prospective Financial Information. We note that RG 170 relates to the use of prospective financial information in disclosure documents. However, it provides useful guidance for inclusion of prospective financial information in expert reports.

We note ASIC's policy that any use of prospective financial information in reports to shareholders prepared by independent experts should clearly set out the scope of the work undertaken by the expert in reviewing that information, and the expert's opinion on the prospective financial information, based on the review undertaken.

We have undertaken a limited review of the Projections. The scope of our work in this regard comprised of, and has been limited to, the following:

— obtaining details of the Projections and the process by which this information was prepared;

— discussions with management regarding the basis on which the Projections have been formulated and where possible, undertaking evaluation of such information, by reference to either past trading performance and/or other documentation provided by SZG management;

- review of the most recently available monthly management accounts; and
- consideration of economic and industry analysis.

We have not included a detailed disclosure of the Projections in this Report, given that at this point, SZG has provided to the market only a high level indication of forecast revenue and EBITDA for the years ending 30 June 2014 and 30 June 2015.

2.6 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time. Accordingly, changes in those conditions may result in any valuation opinions becoming quickly outdated and in need of revision. We reserve 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 us.

2.7 Sources of Information

Appendix A to this report sets out details of information referred to and relied upon by us during the course of preparing this Report and forming our opinion.

SZG has agreed to indemnify William Buck, and its owner practice, their partners, directors, employees, officers and agents (as applicable) against any claim arising out of misstatements or omissions in any material supplied by the Company, its subsidiaries, directors or employees, on which we have relied.

2.8 Assumptions

In forming our opinion, the following has been assumed:

- all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts and there are no alleged or actual material breaches of the same or disputes (including, but not limited to, legal proceedings), other than as publicly disclosed and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding, other than as publicly disclosed;
- that matters relating to title and ownership of assets (both tangible and intangible) are in good standing, and will remain so, and that there are no material legal proceedings, or disputes, other than as publicly disclosed;
- information in relation to the Proposed Transaction provided to the SZG shareholders or any statutory authority by the parties is complete, accurate and fairly presented in all material respects;
- if the Proposed Transaction is approved, it will be implemented in accordance with its disclosed terms; and
- the legal mechanisms to implement the Proposed Transaction are correct and effective.

3. Economic and Industry Overview

3.1 Introduction

SZG's current operations primarily relate to the provision of mining services, particularly regarding maintenance and repair of machinery for the thermal coal industry in New South Wales, Australia. Thermal coal is a global commodity typically used in electricity generation and accordingly, the prospects of the Company will be affected by both future general global economic conditions and industry conditions in the coal industry.

Australia is the second largest exporter of thermal coal globally as its production capacity is considerably higher than its domestic demand. As a result, the Australian coal mining and mining services industry are therefore driven both by the price of coal and the Australian dollar exchange rate.

The coal mining services industry provides services to well-diversified global mining players, which possess strong bargaining power against the mining services firms. The level of capital investment and operating expenditure in the mining industry represents an additional key driver for the performance of the mining services industry.

In preparing our Report, we have given consideration to current expectations with regard to general global economic conditions and industry conditions in the global and Australian thermal coal industries.

3.2 Global and Australian General Economic Conditions

The following observations regarding global and Australian economic conditions are based on William Buck's review of generally available economic analysis reports published by major Australian trading banks and economic forecasting bodies at or about June 2014.

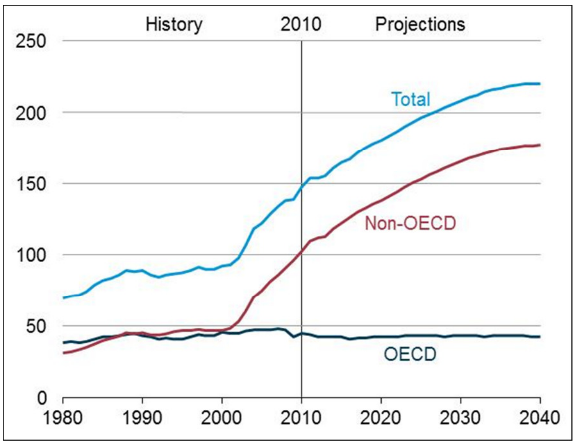
3.2.1 Global Economic Conditions

Economic conditions in the United States reflect a potential policy change from growth support to financial stability as the unemployment rate approaches the United States Federal Reserve's original target. Europe, in contrast, continues to adopt a monetary policy aimed at economic growth as deflation continues to be a major concern for policy makers in the region. Recently, the European Central Bank has announced up to EUR 400 billion in funding for corporate loans, while interest rates are kept at low or even negative levels.

Some analysts expect that recent announcements from the European Central Bank will further encourage carry trade activity between the Euro and the Australian dollar as investors pursue higher Australian interest rates. Additional demand for the Australian dollar is expected to maintain the level of the Australian dollar above fundamentals.

World energy consumption is projected to increase by 56% from 2010 to 2040, with growth being driven by countries outside the OECD. Despite increasing usage of renewable resources and tighter carbon regulation, fossil fuels are expected to supply almost 80% of the world energy by 2040.
The industrial sector continues to be the main driver for energy consumption as developing nations drive increasing demand for coal to support their economic activity. In contrast, regulation and alternative sources are expected to inhibit the demand for coal in OECD nations.

Figure 2 – World Coal Consumption 1980-2040



Source: International Energy Outlook 2013, US Energy Information Administration

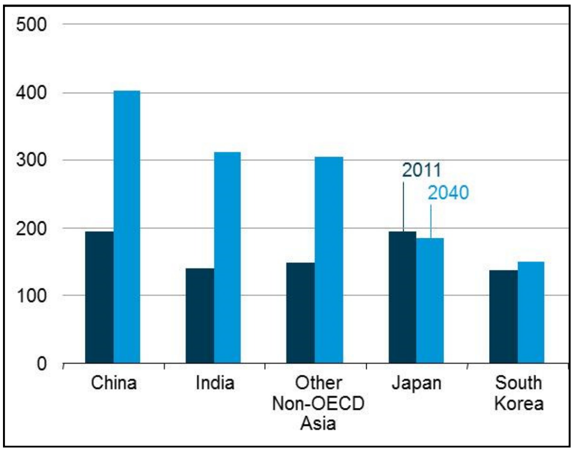
3.2.2 Australian Economic Conditions

The overall Australian economy has performed strongly in recent years, due to strong demand from Australia's trading partners for commodities, most notably China. Australia has been able to increase its exports of thermal coal despite ongoing currency pressures.

Australia has characterized itself in the global market as a net exporter of coal. While its domestic coal demand continues to decline, demand from international markets, particularly Asia, continues to rise. Currently, Australia is the fourth major coal producer worldwide and the second largest exporter of thermal coal, behind Indonesia.

Japan is also a major target for Australian coal exports. However, Japan, as the majority of OECD nations, is facing increasing regulatory pressures on coal usage, limiting Japan's forecast of coal demand. During the next decades, China and India will continue to play a major role in demand for Australian coal.

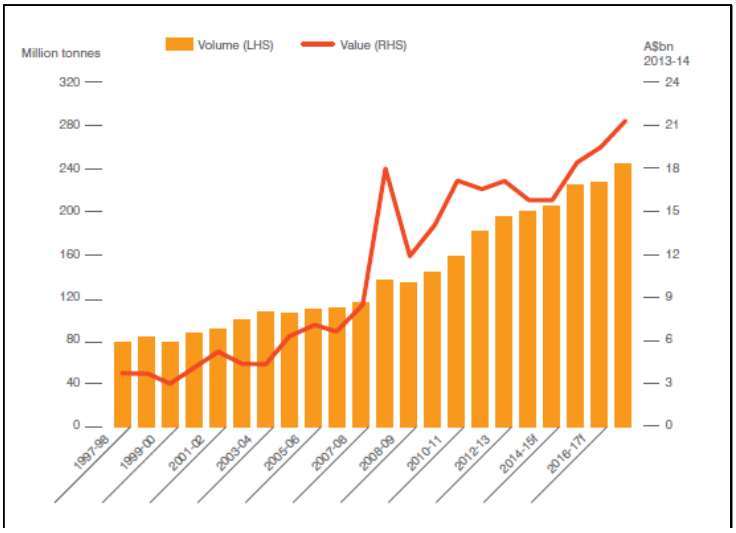
Figure 3 – Asian Coal Imports by Region, 2011 to 2040 (million short tons)



Source: International Energy Outlook 2013, US Energy Information Administration

The medium-term outlook remains positive, with continuing strong demand for Australian coal from Australia's major trading partners.

Figure 4 – Australian Thermal Coal Exports by Volume and Value, 1997-98 to 2017-18



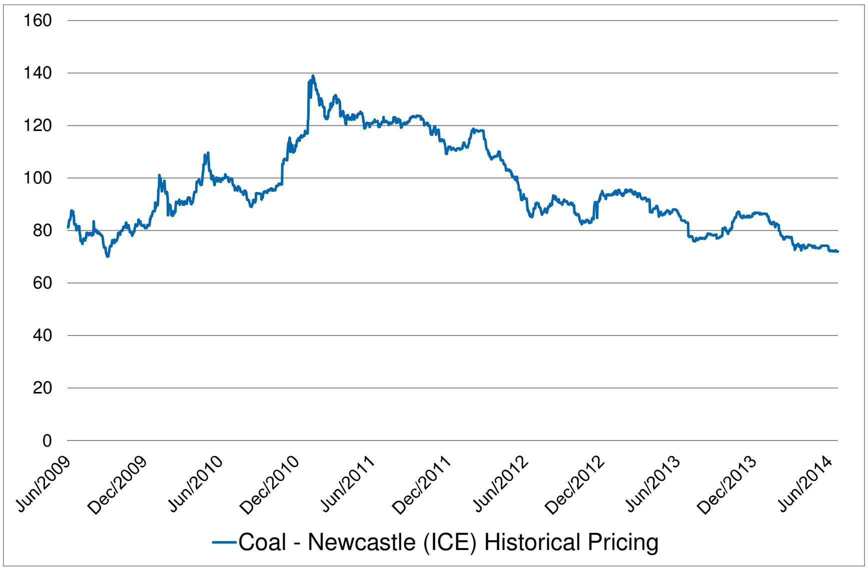
Source: Bureau of Resources and Energy Economics, Coal Hard Facts – Minerals Council of Australia

3.3 Thermal Coal Industry in Australia

Coal producers in Australia are predominantly based in the Bowen Basin in Queensland and the Hunter Valley in New South Wales. Most of New South Wales' coal is exported via Port Kembla and the Port of Newcastle.

Rainfall from tropical storms in the Pacific region regularly disrupts coal extraction in Australia and Indonesia. Floods in Queensland during early 2011 impacted Bowen Basin coal production, resulting in an increase in demand for Hunter Valley coal. Increasing operating profits in NSW thermal coal mines drove capital expenditure during this period.

Figure 5 – Newcastle Thermal Coal Historical Price Jun/2009 – Jun/2014

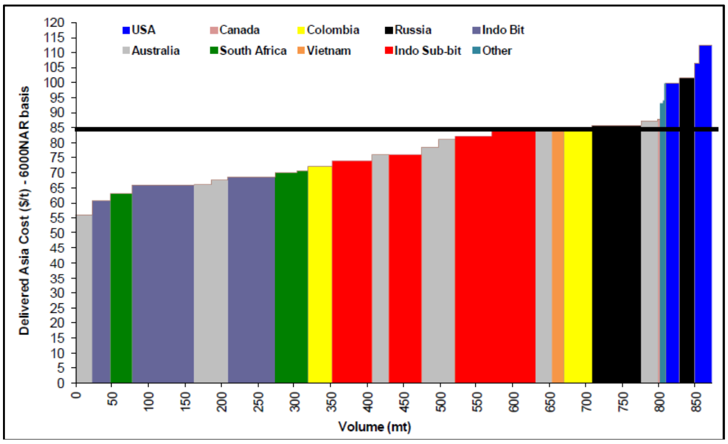


Source: CapitalIQ

Between 2012 and 2013, Australian thermal coal production exceeded demand, resulting in historically low thermal coal prices. Coal extractors have reduced capital expenditures in response to lower prices.

Despite the decline in price, coal producers in Australia are well positioned along the export supply curve and most are expected to continue in business. Australian coal miners have shifted from a growth strategy towards cost reduction and operational efficiency programs. The export supply curve below shows the cost to each producer for a ton of thermal coal delivered into Southern China.

Figure 6 – Energy-adjusted Export Supply Curve for Thermal Coal



Source: Macquarie Bank research, Whitehaven Coal Investor Conference – May 2014

3.4 Mining Services Industry in Australia

Mining services companies are highly dependent on coal extraction activity. Low bargaining power against clients and strong competition within the mining services industry further intensify this dependency. Subdued economic conditions in coal mining have also negatively impacted the coal mining services industry.

Historically low thermal coal prices and a persistent high Australian dollar have forced coal miners to reduce capital expenditure. While reductions in capital expenditure may require continuance in repair and maintenance schedules of existing equipment, miners have also extended these schedules in an attempt to reduce operating expenses.

As a result, some mining services companies are facing lower revenue due to the decrease in capital expenditure, while others are only expecting this revenue to be deferred as coal miners cannot postpone the maintenance and repair of their equipment indefinitely.

4. Profile of SubZero Group Limited

SZG is a mining services company with primary operations in repair and maintenance of equipment to thermal coal extractors in New South Wales. The company's core operations take part in the Hunter Valley region, one of the major coal mining regions in Australia.

4.1 History

SZG was founded in 1999 and has continually expanded its services through its history. SZG listed on the ASX in 2013.

Table 3 – SZG History

Year	Event
1999	SubZero Services founded in the Hunter Basin
2002	The company acquires Nash Engineering and establishes SubZero Line Boring
2003	SubZero Field Services and SubZero Automotive founded
2005	SubZero acquires Bro-Built Engineering
2008	Diesel & Plant Services and SubZero Mining Services founded
2011	SubZero Supplementary Labour Hire commences
2012	DMST and Harness Master are acquired
2013	IPO; new facility at Muswellbrook; Moranbah Joint Venture

Source: SZG Investor Presentation, 28 February 2014

4.2 Overview of SZG Business

SZG operates four divisions: Mechanical Support, Structural Support, Production Support and Corporate Services.

4.2.1 Mechanical Support

Mechanical Support provides light engineering services and monitoring. This division operates under multiple brands: SubZero Mechanical Support, DMST (Diagnostic Monitoring and Safety Technology) and SubZero Automotive.

4.2.2 Structural Support

Structural Support provides a comprehensive range of structural repair and fabrication services to mining equipment components and machinery. Services include heavy engineering, field and industrial services, line boring and liquid nitrogen supply.

4.2.3 Production Support

Production Support provides support to production oriented activities in mine sites, delivering overall efficiency for core activities in mine sites and increasing production capacity. This division includes SubZero Mining Services, Infrastructure and Poly Services and labour hire.

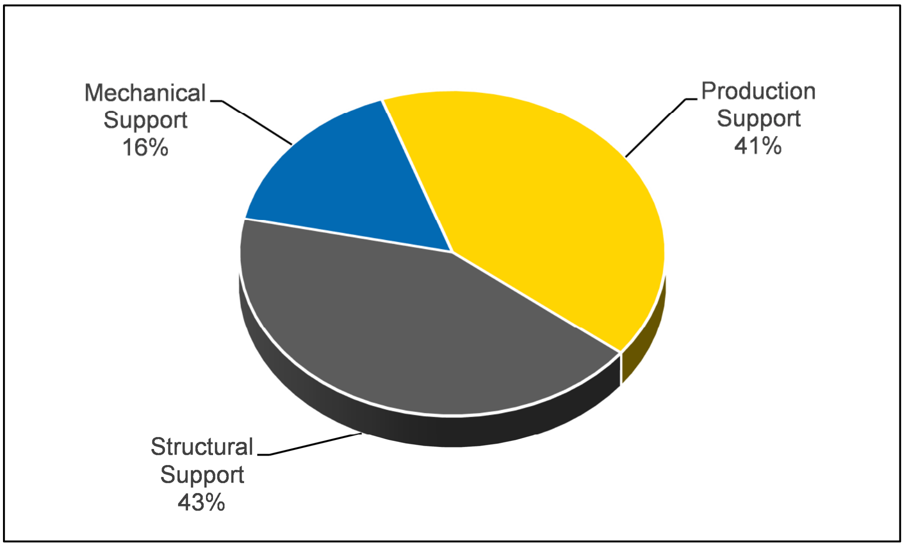
4.2.4 Corporate Services

Corporate Services facilitates corporate functions including ASX compliance matters, management of joint ventures, technical assistance and Occupational Health & Safety support to SZG subsidiaries.

4.2.5 Revenue by Division

Repair and maintenance services, which include the Mechanical and Structural Support divisions, accounted for approximately 60% of SZG's revenue during FY13 and the first half of FY14. Production services accounted for the remaining 40% of revenue.

Figure 7 – FY13 Revenue by Division



Source: SZG H1 FY2014 Presentation and William Buck analysis

4.2.6 Market positioning and key competitors

In 2013, SZG commenced leasing a new facility located in Muswellbrook, NSW. This facility is currently owned by TMD and its proximity to major clients provides a competitive advantage as it significantly reduces transportation costs for repair and maintenance of major mining equipment, which can result in significant savings to clients. This facility is also the largest in the region, which facilitates indoor repair services.

Participants in the mining services industry in the Hunter Valley include Austin Engineering Ltd and Resco Pty Ltd.

4.2.7 Growth strategy

Coal miners have shifted their focus from production growth and capital expenditure to cost efficiency improvements during recent years. SZG management expects strong revenue growth in FY15 as deferral of maintenance programmes by SZG customers is starting to impact customer production equipment reliability and operational efficiencies.

SZG has also identified opportunities and is expanding operations into Queensland and Western Australia during the second half of FY14, including mechanical services, labour hire, and sale of hydraulic isolation modifications to major pieces of mining machinery.

SZG has also identified opportunities to grow its product offering through the sale of harness wiring systems into the US market, a market which is estimated to have a total value of US$17 billion. SZG aims to provide customised electrical wiring systems to the automotive, trucking, marine and defence industries.

In May 2014 SZG entered into a joint venture agreement with Harness Master Wiring Systems Pty Ltd to form Harness Master International ("**HMI**"). SubZero has a 50% equity interest and holds the majority of directors in HMI.

In June 2014 HMI formalised its first distribution and royalty agreement for the United States. This agreement provides HMI with an upfront royalty fee of $5 million which SZG plans to recognise in income over the course of FY15.

4.3 Board of Directors

SZG's directors have significant industry knowledge and include the following:

Malcolm Jackman, Independent Non-Executive Chairman
Malcolm has over 20 years' experience managing large distribution sales networks in a business to business environment including ADIA (now ADECCO) New Zealand/Australia/USA, Manpower Australia/New Zealand and Coates Hire. With these companies, Malcolm demonstrated the ability to grow business profitability and to do so through the retention of key executives and creating the right culture.

Scott Farrell, Managing Director

Scott is the founder and Managing Director of SZG. He has over 15 years' experience in the mining and engineering services sector and over 20 years of total engineering maintenance sector experience, including power generation and factory training and infield experience with Bucyrus Ltd, a dragline & shovel OEM (Original Equipment Manufacturer).

Graeme (Joe) Clayton, Independent Non-Executive Director

Graeme (Joe) Clayton is the principal of BDM Resources a privately owned mining services company which specialises in assisting mine owners and operators to address environmental and community issues. Joe has been involved in the mining industry for 36 years including managing mining operations in coal, copper, iron ore, quarrying and gold in Australia, Indonesia and PNG.

Bruce Arnott, Independent Non-Executive Director

Bruce has 38 years' experience working in various finance roles in a broad range of industries including manufacturing, engineering and distribution. Bruce's positions have included six years as Group Controller of OneSteel and most recently six years as Chief Financial Officer of Bradken Ltd.

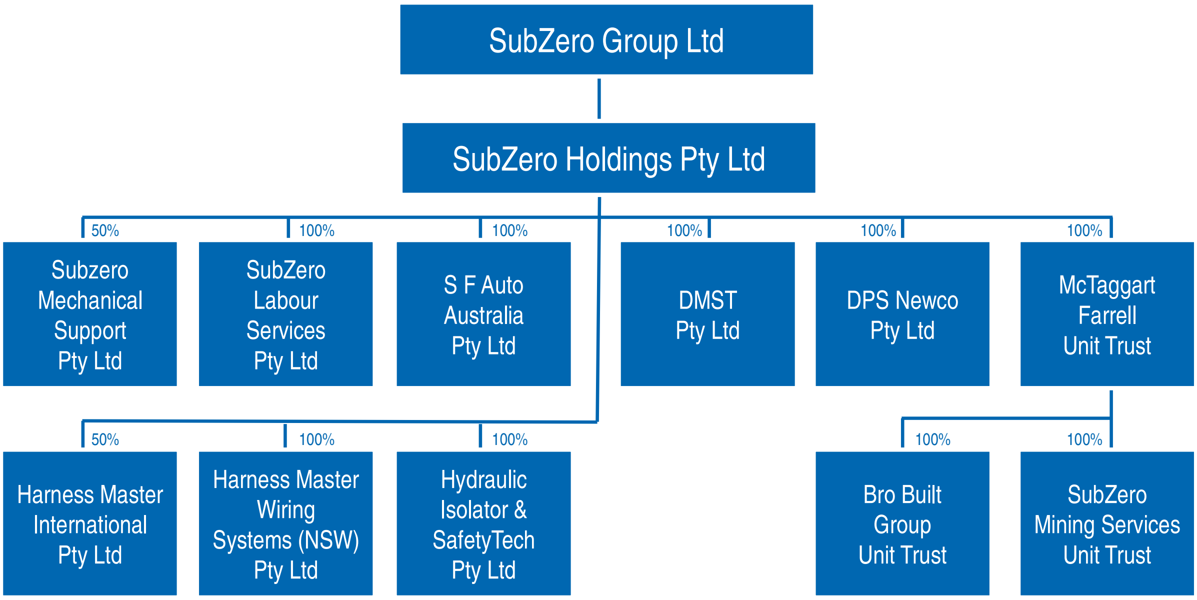
Frank O'Halloran, Independent Non-Executive Director

Frank O'Halloran, CEO at QBE Insurance Group Ltd. from January 1998 to August 17, 2012. He has extensive experience in professional accountancy for 14 years and insurance management for over 30 years. He has been a Non-Executive & Independent Chairman and Director at Steadfast Group Limited since October 21, 2012.

4.4 Corporate Structure

The existing corporate structure of SZG is as follows:

Figure 8 – Corporate Structure



Source: Information provided by SZG

4.5 Capital Structure

SZG's capital structure as at 5 June 2013 comprised 252,915,402 ordinary shares. Details of the top 10 and total shareholders of SZG are as follows:

Table 4 – SZG Shareholders

Shareholder	No. of Ordinary Shares Held	Percentage Interest
Subzero Services	24,779,409	9.8%
Subzero Services (In Escrow)	19,558,818	7.7%
Diesel & Plant Trust	6,905,704	2.7%
Value Add	2,340,912	0.9%
SF Auto	750	0.0%
Total shares controlled by Mr Farrell	**53,585,593**	**21.2%**
Citicorp Nominees	24,163,987	9.6%
HSBC Custody	14,472,347	5.7%
Butler Jones	9,942,368	3.9%
O' Halloran Super Fund	9,825,485	3.9%
Pebede Pty Ltd	7,236,188	2.9%
PPK	6,562,500	2.6%
Avanteos Investments	5,000,000	2.0%
Contemplator Pty Ltd	4,994,525	2.0%
Turbot Investments	4,914,900	1.9%
Other Shareholders	112,217,509	44.4%
Total shares issued	**252,915,402**	**100.0%**

Source: SZG Register as at 5 June 2014

4.6 Financial Position

Set out below is a summary of SZG's financial position based on its audited accounts for the year ended 30 June 2013 and reviewed accounts for the half year ended 31 December 2013:

Table 5 – SZG - Financial Position

($000)	As at 30 June 2012	As at 30 June 2013	As at 31 December 2013
	Audited	Audited	Reviewed
Current assets			
Cash & cash equivalents	320	125	1,045
Trade & other receivables	16,495	14,961	13,697
Inventories	1,308	2,601	5,279
Total current assets	**18,123**	**17,687**	**20,021**
Non-current assets			
Property, plant & equipment	18,524	17,431	16,016
Deferred tax assets	390	166	-
Financial assets	-	300	150
Intangible assets	833	1,391	1,602
Total non-current assets	**19,747**	**19,288**	**17,768**
Total assets	**37,871**	**36,975**	**37,789**
Current liabilities			
Trade and other payables	15,351	18,012	16,508
Borrowings	11,709	9,297	8,882
Current tax liabilities	187	424	424
Provisions	24	44	142
Total current liabilities	**27,271**	**27,777**	**25,956**
Non-current liabilities			
Borrowings	12,021	7,511	4,374
Provisions	131	227	119
Total non-current liabilities	**12,152**	**7,738**	**4,493**
Total liabilities	**39,422**	**35,515**	**30,449**
Net assets	**(1,551)**	**1,460**	**7,340**
Equity			
Share capital	556	10,286	18,397
Reserves	-	(502)	(502)
Retained earnings	(2,261)	(8,324)	(10,554)
Non-controlling interests	154	-	-
Total equity	**(1,551)**	**1,460**	**7,340**

Source: SZG Annual Report 2013 and SZG Interim Financial Report for the half year ended 31 December 2013

We note that SZG reported a deficiency of current assets to current liabilities as at 30 June 2012, 30 June 2013 and 31 December 2013.

4.6.1 Borrowings

The composition of SZG borrowings are set out in the table below.

Table 6 – SZG borrowings

($000)	As at 30 June 2012	As at 30 June 2013	As at 31 December 2013
	Audited	Audited	Reviewed
Current borrowings			
Hire purchase liabilities	5,580	5,640	5,429
Debt factoring	6,054	3,277	3,303
Related party loan	-	300	150
Bank loans	74	80	-
Total current borrowings	**11,709**	**9,297**	**8,882**
Non-current borrowings			
Hire purchase liabilities	11,183	6,836	4,374
Related party loan	838	676	-
Total non-current borrowings	**12,021**	**7,511**	**4,374**
Total borrowings	**23,730**	**16,808**	**13,256**

Source: SZG Annual Report 2013 and SZG H1 FY2014 Presentation

Macquarie Bank Limited working capital facility

On 16 April 2014, SZG announced that loan documentation had been signed in relation to a new $16 million working capital facility provided by a syndicate of lenders led by Macquarie Bank Limited ("**MBL**") which will expire on 31 December 2016.

The purpose of the new working capital facility is to replace former debtor financing provided by Scottish Pacific Debtor Finance ("**ScotPac**"), eliminate an overhang of trade creditors and provide general ongoing working capital to the business. The new facility provides SZG with lower funding costs and additional capacity to manage the business for future growth.

SZG's ScotPac debtor financing was intended to provide a working capital facility for up to $12.5 million. However, due primarily to debtor concentration limits applied by ScotPac, access to this facility was extremely limited. At the date at which the ScotPac facility was replaced by MBL, SZG management estimates that only $2.9 million was available and drawn down by SZG.

The new working capital facility from MBL is linked to the refinance of bank debt in TMD of $6.5 million which also occurred in April 2014. Originally, MBL has offered SZG a smaller working capital facility. However, the final working capital facility of $16 million has been provided on the basis of the following options, that would each require approval by SZG shareholders:

— Obtain a cross-guarantee between SubZero Group Limited and TMD Investments Pty Limited ATF TMD Unit Trust; or

— Acquire the issued shares and units of TMD.

The link to TMD brings TMD's property at 39 – 43 Thomas Mitchell Drive (valued at $11.9 million) into MBL's security. Given the additional strategic importance to SZG of the Thomas Mitchell Drive property, SZG's directors decided to acquire the shares and units of TMD.

4.6.2 Equity

SZG share capital increased by $9.7 million during the financial year ended in 30 June 2013 and by $8.1 million during the six months ended 31 December 2013.

In April 2013, SZG raised $9.6 million via its Initial Public Offering.

During November 2013, SZG conducted the following capital raisings:

- Placement of 24,195,000 fully paid ordinary shares to institutional and sophisticated investors at an issue price of $0.10 per share to raise $2.42 million net of costs; and
- A fully underwritten, pro rata non-renounceable entitlement offer of 62,819,947 fully paid ordinary shares at an issue price of $0.10 per share in order to raise $5.69 million net of costs.

The November 2013 shares issues were priced at a 20% discount to the closing 30 October 2013 share price of $0.125. Regarding the entitlement offer, we note that of 62,819,947 shares offered under the entitlement offer, only 15,203,524 shares were applied for by SZG shareholders. The remaining 47,616,423 shares were taken by the underwriter to the entitlement offer and its nominated sub-underwriters.

4.6.3 Contingent liabilities

On 28 March 2014 The Corky's Group filed a Summons and Technology & Construction List Statement against SubZero Group Ltd and AON Risk Services Australia Ltd for a fire incident that occurred in their plant at Glencore Blakefield South in August 2012.

We have been informed that SZG has insurance to cover for third party related incidents. Equilaw Solicitors and SZG's insurance legal representative, Moray & Agnew, are currently building a defence for the matter.

4.7 Financial Performance

Details of SZG's historical results for the years ended 30 June 2012 and 2013 (FY12 and FY13, respectively), together with the results for the half year ended 31 December 2012 (HY13) and 31 December 2013 (HY14) are set out below.

Table 7 – Financial SZG - Performance

($000)	9 mths ended 30 June 2012	Year ended 30 June 2013	6 mths ended 31 December 2012	6 mths ended 31 December 2013
	Audited	Audited	Reviewed	Reviewed
Revenue	64,325	84,903	46,539	33,841
Cost of sales	(38,941)	(55,463)	(33,129)	(23,354)
Gross profit	**25,384**	**29,440**	**13,410**	**10,487**
Gross profit margin	*39%*	*35%*	*29%*	*31%*
Other income	430	593	413	-
General & admon expenses	(2,182)	(3,712)	(3,176)	(3,253)
Vehicle and equipment costs	(4,263)	(5,144)	(483)	(1,178)
Employee benefits expense	(9,424)	(14,879)	(5,179)	(3,844)
Rental expense	(1,202)	(1,957)	(935)	(1,266)
Costs of listing	-	(3,468)	-	-
EBITDA	**8,743**	**873**	**4,050**	**946**
Depreciation & amortisation	(3,297)	(4,230)	(2,005)	(1,893)
Finance costs	(1,940)	(2,253)	(1,196)	(1,020)
Profit/(loss) before income tax	**3,506**	**(5,610)**	**849**	**(1,967)**
Income tax (expense)/benefit	199	(453)	(255)	(266)
Profit/(loss) after income tax	**3,705**	**(6,063)**	**594**	**(2,233)**

Source: SZG Annual Report 2013 and SZG Interim Financial Report for the half year ended 31 December 2013

The historical results of SZG as set out in the table above reflect SZG's mining services activities to date. In relation to the historical income statements outlined above, we note:

— SZG reported losses after tax of $6.1 million and $2.2 million in the FY13 and HY14, respectively, due to adverse trading conditions, particularly in respect of Hunter Valley coal mining customers;

— SZG's auditor, PricewaterhouseCoopers, noted material uncertainty regarding continuation as a going concern in its auditor's opinions for SZG's 30 June 2013 financial report and SZG's 31 December 2013 interim report. The material uncertainty arose due to the losses recorded by SZG and material deficiencies of current assets in comparison with current liabilities during those periods;

— revenue is recognized in the accounting period in which the services are rendered. SZG reported a significant decrease in revenue during the first half of FY14 due to subdued market conditions in the mining services industry, resulting in slower project ramp-ups and customer delays to preventative maintenance programmes;

— employee benefit expenses increased from 15% of revenue in FY12 to 18% of revenue in FY13 due to unrecovered personnel costs from maintaining a labour pool in anticipation of scheduled labour hire requirements;

— SZG incurred $3.5 million in one-off listing costs in FY13; and

— gross profit and EBITDA margins decreased in FY13 and the first half of FY14 as a result of a decline in revenue and under-utilisation of SZG's equipment and workforce.

4.7.1 Forecast Revenue and EBITDA

On 16 June 2014, SZG provided FY14 and FY15 earnings guidance as follows:

— FY14: Revenue in the range of $70 million to $75 million; EBITDA in the range of $2 million to $2.5 million. On 5 August 2014, the SZG revised its FY14 guidance to an EBITDA loss of $0.8 million citing softer than expected sales;

— FY15: Revenue of $150 million; EBITDA in the range of $24 million to $28 million.

SZG noted the increase in forecast revenue and EBITDA was made based on an expected uplift in trading in the final quarter of FY14, and growth prospects due to a joint venture agreement to expand the Hydraulic Isolator and Harness Master business to the United States.

As noted in Section 2.5, we have undertaken a limited review of SZG forecast financial information for FY14 and FY15 which comprised of, and has been limited to, the following:

— obtaining details of the Projections and the process by which this information was prepared;

— discussions with management regarding the basis on which the Projections have been formulated and where possible, undertaking evaluation of such information, by reference to either past trading performance and/or other documentation provided by SZG management;

— review of the most recently available monthly management accounts; and

— consideration of economic and industry analysis.

With regards to SZG's FY14 EBITDA forecast, the revised guidance of an EBITDA loss of $0.8 million includes other income of $320k resulting from re-negotiation of interest and penalties with the Australian Tax Office. Ordinarily, we would exclude items of this nature from an assessment of normalised or maintainable EBITDA.

With regards to SZG's FY15 forecasts:

— the forecasts have been prepared in detail for SZG's Production, Mechanical, Structural and other products businesses;

— the forecasts predominantly reflect revenues for which SZG has a high degree of confidence ;

— as in prior years, SZG's FY15 performance will depend largely on customers conducting mining operations, service of major pieces of equipment and repair of major pieces of equipment in line with plans that have been communicated to SZG.

4.8 Share Price Trading Performance

SZG's shares are listed and quoted for trading on the ASX.

We have reviewed the historical market trading in SZG's shares over the period from 22 April 2013, the date to SZG's admission to the ASX, to 31 July 2014 ("**Historical Trading Period**") with regard to the following factors:

— the daily share price;

— the daily volume; and

— the volume weighted average share price ("**VWAP**").

The figure below sets out the daily share price and trading volume of SZG's shares during the Historical Trading Period.

Figure 9 – Share Price and Trading Volume History

Source: CapitalIQ, William Buck's Analysis

From the Figure above, we note that SZG's share price has decreased steadily from around $0.20 per share at its date of listing to $0.08 to $0.10 per share during July 2014.

4.8.1 Liquidity

In addition to our review of the historical share price and VWAP history of SZG's shares, we have also reviewed the liquidity of trading in SZG's shares during the Historical Trading Period in order to assess whether the level of liquidity is sufficient to support a fair assessment of the market value of SZG's shares based on its quoted market price.

The figure below sets out the monthly VWAP and total monthly trading volume of SZG's shares during the Historical Trading Period.

Table 8 – Monthly Volume and VWAP History

Month Ended	Volume	Average No. Shares on Issue	Turnover	Trading Days	Total Available Trading Days	Trading Days (%)	Value of Trades at Closing Price	VWAP
31-Jul-14	10,507,478	252,915,402	4.2%	11	23	47.8%	$ 845,552	$ 0.08
30-Jun-14	2,954,166	252,915,402	1.2%	9	20	45.0%	$ 257,881	$ 0.09
31-May-14	2,993,450	252,915,402	1.2%	10	22	45.5%	$ 282,561	$ 0.09
30-Apr-14	894,581	252,915,402	0.4%	5	19	26.3%	$ 83,949	$ 0.09
31-Mar-14	3,239,512	252,915,402	1.3%	9	21	42.9%	$ 355,793	$ 0.11
28-Feb-14	3,314,562	252,915,402	1.3%	10	20	50.0%	$ 406,155	$ 0.12
31-Jan-14	4,087,317	252,915,402	1.6%	12	21	57.1%	$ 451,249	$ 0.11
31-Dec-13	13,891,875	249,774,405	5.6%	16	20	80.0%	$ 1,483,688	$ 0.11
30-Nov-13	5,405,193	186,639,026	2.9%	17	21	81.0%	$ 564,947	$ 0.10
31-Oct-13	763,571	165,900,455	0.5%	14	23	60.9%	$ 90,337	$ 0.12
30-Sep-13	649,177	165,900,455	0.4%	9	21	42.9%	$ 78,103	$ 0.12
31-Aug-13	960,863	165,900,455	0.6%	9	22	40.9%	$ 112,583	$ 0.12
31-Jul-13	2,845,443	165,900,455	1.7%	15	23	65.2%	$ 351,078	$ 0.12
30-Jun-13	1,356,593	165,426,771	0.8%	10	19	52.6%	$ 226,863	$ 0.17
31-May-13	2,380,656	165,300,455	1.4%	21	29	72.4%	$ 403,819	$ 0.17
12 months to 31 July 2014	49,661,745	225,376,884	22.0%	131	253	51.8%	5,012,798	$ 0.10
6 months to 31 July 2014	23,903,749	252,915,402	9.5%	54	125	43.2%	2,231,890	$ 0.09
3 months to 31 July 2014	16,455,094	252,915,402	6.5%	30	65	46.2%	1,385,994	$ 0.08

Source: CapitalIQ, William Buck's Analysis

We note the following with respect to trading in SZG's shares over the Historical Trading Period:

— the total number of shares traded during the last twelve months to 31 July 2014 comprised approximately 22.1% of SZG's average shares traded on issue. In our opinion, this level of trading represents an illiquid stock;

— the VWAP reflected a major movement during the first three trading months up to July 2013 and has exhibited a more stable price since. The difference between the 1-month and the 12 month VWAP to 17 June 2014 is $0.02, compared to $0.09 difference between the 1-month VWAP to 17 May 2013 and 17 June 2014.

Factors which may have had an impact on the recent trading activity of SZG shares are as follows:

Table 9 – Price Sensitive Announcements

Date	Announcement	Detail
05-Aug-14	FY2014 Guideline	Expected underlying EBITDA loss of $0.8m for FY2014
16-Jun-14	Market Update & USA Distribution - Correction FY15 EBITDA	FY14 revenue revised to $70-75m with underlying EBITDA of $2-2.5m; FY15 forecast of $150m revenue / $24-28m EBITDA
12-May-14	Joint Venture Agreement - Harness Master International	JV to form a new company to sale, market and distribute electrical wiring systems
16-Apr-14	New Working Capital Facility	Provides $16m working capital facility with lower funding costs
28-Feb-14	Half Yearly Report and Accounts - 31 Dec 2013	$2.2m loss for HY2014
29-Jan-14	Market Update	SZG advises revenue and performance will be 10% lower than market expectations
09-Dec-13	Major Contract Awarded	Awarded contract with a global thermal coal mining company to supply mechanical support services for offsite repairs to its heavy mobile fleet
07-Nov-13	Entitlement Offer Prospectus	$6.3m equity offering at $0.10 per share
01-Nov-13	$8.7 m Capital Raising - Share Placement & Entitlement Offer	$2.4 million equity raising received, expecting $6.3m additional through equity offering
31-Oct-13	Trading Halt	Request of the Company pending to announcement
25-Oct-13	SZG Convertible Notes Not Proceeding	Not proceeding with issuance of convertible notes
30-Sep-13	Full Year Statutory Accounts	Increase in Loss after tax for the period of $3.458m arising from the application of Reverse acquisition accounting
10-Sep-13	SubZero issues Redeemable Convertible Notes	$5-12m on 5 year Convertible Notes
02-Sep-13	SubZero Finalises Repair Refurbishment Fabrication Contract	Contract completed for one of the company's major resource customers in NSW
30-Aug-13	Preliminary Final Report - Year Ended 30 June 2013	$2.6m loss as a result from the acquisition of the group's entities by SVC Group Limited
20-Aug-13	SubZero signs truck body repair contract	3 yr contract with one of the company's major resource customers in NSW.
02-Jul-13	FY 2013 & FY 2014 Earnings Guidance	Proforma EBITDA (after normalisations) for FY2013 expected between $6-7m.
01-Jul-13	Acquisition of 26% shareholding in HMWS and DMST	Acquisition of the 26% remaining shareholding of HMWS and DMST for $809,000
03-Jun-13	SubZero Achieves Automative Contract Extension	Contract extension for Light Service Vehicle Service Contract with BHP
31-May-13	SubZero sustains Supplementary Labour Hire Contract	Renewed Labour Hire Contract with Bengalla
24-May-13	SubZero Signs Offsite Repair Services Contract	Offsite repair contract with Rio Tinto to generate up to $40m in revenue
23-May-13	SubZero awarded $2 million Mining Service Contract	New contract for dozer push works with BHP
29-Apr-13	Exclusive Distributorship with QMW Industries	Distribution agreement with on QMW products
24-Apr-13	Occupancy Approval gained for new facilities - Muswellbrook	Occupancy of facilities in the Hunter Valley
22-Apr-13	Awarded $5.9M Infrastructure & Poly Contract	Water network upgrade Contract signed with BHP
19-Apr-13	Reinstatement to Official Quotation - 22 April 2013	Initial Public Offering

Source: ASX and William Buck

5. Profile of TMD

5.1 Background

TMD Investments Pty Ltd as trustee for the TMD Unit Trust is the registered owner of freehold industrial land and business premises at 39 – 43 Thomas Mitchell Drive, Muswellbrook, NSW (the "**Premises**").

Per the terms of the Share and Unit Sale Agreement, SZG will acquire both the entire issued share capital in TMD Investments Pty Ltd and all units of the TMD Unit Trust.

In 2010, TMD constructed a fit for purpose facility at 39 – 43 Thomas Mitchell Drive.

Since 1 October 2012, SZG has leased the whole of the Premises with rent payable under the lease being $1,138,500 per annum from 1 October 2014.

The Premises is situated directly opposite to BHP's Mount Arthur Coal Mine on Thomas Mitchell Drive, providing SZG with a significant strategic and cost advantage over competitors in relation to the provision of services to BHP.

On 8 August 2014, TMD Investments Pty Ltd entered into a novation deed with Mr Farrell ("**Novation Deed**"). Per the terms of the Novation Deed, loans payable and receivable by TMD, totalling net loans payable as at 30 June 2014 of $2,793,547 will be novated from TMD to Mr Farrell for no consideration.

5.2 Corporate and capital structure

TMD Investments is trustee for the TMD Trust.

TMD Investments has issued share capital of one ordinary share which is owned by Mr Farrell.

TMD Trust is comprised of 100 units, 92 of which are owned by Mr Farrell and eight units are owned by JMAA.

5.3 Officeholders

The sole director of TMD Investments is Mr Farrell.

5.4 Pro-forma Financial Position

Set out below is a summary of TMD's proforma financial position as at 30 June 2014, based on TMD's unaudited management accounts as at 30 June 2014.

The proforma TMD balance sheet as at 30 June 2014 has been prepared by TMD management.

As noted above, TMD is an investment holding entity with its primary asset being the Premises.

Table 10 – TMD proforma statement of financial position as at 30 June 2014

$000	As at	Adjustments		Pro-forma as at
	30 June 2014	Note 1	Note 2	30 June 2014
Current assets				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	24	-	(24)	-
Total current assets	**24**	**-**	**(24)**	**-**
Non-current assets				
Property, plant and equipment	10,344	-	-	10,344
Accumulated depreciation	(591)	-	204	(387)
Intangible assets	110	-	(49)	61
Total non-current assets	**9,863**	**-**	**155**	**10,018**
Total assets	**9,887**	**-**	**131**	**10,018**
Current liabilities				
Trade and other payables	1,931	-	109	2,040
Total current liabilities	**1,931**	**-**	**109**	**2,040**
Non-current liabilities				
Financial liabilities	9,529	(2,794)	(235)	6,500
Total non-current liabilities	**9,529**	**(2,794)**	**(235)**	**6,500**
Total liabilities	**11,460**	**(2,794)**	**(126)**	**8,540**
Net assets (liabilities)	**(1,573)**	**2,794**	**257**	**1,478**
Equity				
Settlement capital	600	-	-	600
Accumulated losses	(2,173)	2,794	257	878
Total equity	**(1,573)**	**2,794**	**257**	**1,478**

Source: TMD management accounts as at 30 June 2014 and Novation Deed

Notes:

1. *Novation for no consideration to Mr Farrell of loans payable and receivable by TMD per the Novation Deed.*
2. *Trade and other receivables: the proforma balance sheet assumes that trade and other receivables will be collected by TMD prior to acquisition by SZG;*
   Accumulated depreciation: Adjustment to correct an error in TMD's 30 June 2014 management accounts;
   Intangible assets: Adjustment to write off capitalised borrowing costs in relation to loans refinanced by the Macquarie Bank loan;
   Trade and other payables: GST receivables of $109k will collected by TMD prior to acquisition by SZG; and
   Financial liabilities: the $235k adjustment to financial liabilities is in relation to loans payable and loans receivable that no longer exist and were not properly accounted for historically.

We note the following regarding TMD's financial position as at 30 June 2014:

— TMD's management accounts reported net liabilities of $1.57 million however, proforma adjustments in relation to the Novation Deed and corrections to the TMD management accounts made by TMD management result in proforma net assets as at 30 June 2014 of $1.4 million;

— Property, plant and equipment is comprised of purchased land of $663k and buildings at cost, net of accumulated depreciation, of $9.1 million. The fair market value of the Premises is the subject of the TPC Report, further details of which are set out in Section 8 below;

— Intangible assets of $110k relate to capitalised borrowing costs primarily in relation to TMD's loans from PPK and Wavet which have been refinanced by a loan from Macquarie Bank.

— Trade and other payables as at 30 June 2014 primarily relate to $2.07 million owed to SZG, partially offset by GST receivable amounts;

— The composition of financial liabilities are set out as follows:

Table 11 – TMD financial liabilities

$000	As at 30-Jun-14	Subject to Novation Deed
Loans payable:		
Macquarie Bank	6,574	✗
Carramere Investments	2,469	✓
Other loans payable - to novate	274	✓
Other loans payable - to write off	545	✗
Total loans payable	**9,862**	
Loans receivable:		
SubZero Line Boring	309	✗
Other loans receivable	24	✓
Total loans receivable	**333**	
Net loans payable	**9,529**	

Source: Information provided by TMD

6. Valuation Methodologies

6.1 Definition of value

For the purposes of our opinion, the term “fair market value” is generally 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.

We have not considered special value in forming our opinion. Special value is the amount which a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

6.2 Selection of Valuation Methodology

ASIC Regulatory Guide 111 outlines the appropriate methodologies which an expert should generally consider when valuing assets or securities for the purposes of, amongst other things, takeovers, schemes of arrangement, selective capital reductions, related-party transactions and share buybacks.

These include:

— the discounted cash flow (“**DCF**”) methodology and the estimated realisable value of any surplus assets;

— the application of earnings multiples appropriate for the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets;

— the amount that would be available for distribution to security holders on an orderly realisation of assets;

— the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price might not reflect their value, should 100% of the securities be available for sale; and

— any recent genuine offers received by the company for any business units or assets as a basis for valuation of those business units or assets.

Set out in Appendix D is a summary of the various valuation methods that are commonly used to assess the fair value of businesses and shares in companies which we have considered in the course of arriving at our conclusion on the value of the issued shares in SZG and the shares and units in TMD. The selection of which methods are the most appropriate in any situation rests with the circumstances of the particular case.

6.2.1 SZG valuation methodology

We are of the view that the capitalisation of estimated future maintainable earnings (“**FME**”) method is the most appropriate valuation methodology to apply in the case of SZG. This method has been assessed as the most appropriate methodology for the following reasons:

- SZG has provided adequate financial information in order to determine approximate normalised EBITDA results for the year ended 30 June 2013 and forecast for the years ending 30 June 2014 and 30 June 2015;
- Sufficiently detailed and supportable forecast financial information is not available to enable the application of the DCF valuation methodology; and
- The net assets of SZG do not properly reflect the value of the goodwill inherent in the business, consequently an asset based valuation methodology is not considered appropriate.

The capitalisation of estimated FME method derives the enterprise value of a business and requires determination of an appropriate level of estimated FME and a capitalisation multiple.

An appropriate level of estimated FME is selected having regard to historical and forecast operating results, after adjustments have been made for any non-recurring or non-business items of income and expenditure in addition to any known factors likely to affect the future operating performance of the company. Profits arising from assets which are surplus to the operations of the sustainable business are also eliminated.

Capitalisation multiples are usually determined in one of three ways namely, through analysis of the multiples at which comparable listed companies trade, analysis of multiples observed for transactions undertaken by comparable companies, or through derivation from first principles with reference to the rates of return available on alternative forms of investments.

Our FME valuation of SZG is set out in Section 7.

6.2.2 TMD valuation methodology

We are of the view that the net assets on a going concern basis ("**NTA**") method is the most appropriate valuation methodology to apply in the case of TMD.

We consider the net asset backing approach to be the most appropriate valuation methodology as TMD is an investment holding entity and the fair market value of the assets of TMD can be readily obtained.

Our NTA valuation of TMD is set out in Section 8.

7. Valuation of SZG

7.1 FME valuation of SZG

7.1.1 Valuation Summary

Our valuation of SZG using the capitalisation of FME method is set out below.

Table 12 – Equity Valuation of SZG

	Reference	Low Range ($)	High Range ($)
EBITDA ($000)	7.1.2	10,000	10,000
Capitalisation multiple (minority basis)	7.1.3	4.00	4.50
Enterprise value (minority basis)		**40,000**	**45,000**
Net debt ($000)	7.1.4	(22,275)	(22,275)
Equity value (minority basis)		**17,725**	**22,725**
Premium for control	7.1.5	25.00%	30.00%
Equity value (control basis)		**22,156**	**29,543**
Number of shares ('000)	4.5	252,915	252,915
Equity value per share (control basis)		**$ 0.0876**	**$ 0.1168**
Equity value per share (minority basis)		**$ 0.0701**	**$ 0.0899**

Source: William Buck's assessment

An explanation of each component of the valuation set out in the table above is provided in the sections that follow.

7.1.2 Estimated FME

Selected Estimated Future Maintainable Earnings

We have selected EBITDA as the earnings base for this valuation. The benefits of using EBITDA as an earnings base over alternate earnings bases (such as EBIT or NPAT) are widely recognised as it removes the effect of the different debt structures and depreciation policies employed by the company being valued and the comparable listed companies analysed. It also removes the effect of tax losses and changes in taxation legislation.

Normalised EBITDA

In order to determine an appropriate estimated FME for the purpose of the valuation of the issued shares of SZG, we have reviewed historical financial performance for the nine months ended 30 June 2012 ("**FY12**") and the year ended 30 June 2013 ("**FY13**"), and the forecast financial performance for the years ending 30 June 2014 ("**FY14**") and 30 June 2015 ("**FY15**"). We have then made normalisation adjustments to the earnings in order to remove the impact of any non-recurring and discretionary income and expenditure items and any non-arm's length transactions.

The following table summarises the historical results of SZG for FY12 and FY13 and forecast financial performance for FY14 and FY15 together with the respective normalisation adjustments.

Table 13 – Normalised EBITDA

($000)	FY12 (9 mths)	FY13	FY14	FY15
	Audited	Audited	Forecast	Forecast
Profit / (loss) before tax	**3,505**	**(5,611)**		
Depreciation / amortisation	3,297	4,230		
Finance costs	1,940	2,253		
EBITDA	**8,742**	**872**	**(861)**	**24,000**
Listing costs		3,468	-	-
Other restructuring and listing costs		1,542	-	-
One-off costs (including redundancies)		358	-	-
Asset sales		-	-	-
Other income (tax adjustment)		-	(320)	-
Normalised EBITDA	**8,742**	**6,240**	**(1,181)**	**24,000**

Source: Information provided by SZG and William Buck's assessment

In determining the most appropriate basis for selecting the estimated FME we have taken the following factors into consideration:

— SZG achieved normalised EBITDA of $6.2 million in FY13 but due to difficult trading conditions, SZG's result for FY14 appears to be a loss at EBITDA level on a normalised basis;

— SZG currently has a healthy pipeline of work and a number of key growth opportunities including the Harness Master International joint venture and has forecast FY15 EBITDA at a minimum of $24 million;

— SZG has a track-record of under-delivering on its earnings guidance. As recently as 29 January 2014, SZG provided EBITDA guidance for the year ending 30 June 2014 in the range of $10 million to $14 million, underlining difficulties being experienced right across the mining services sector in accurately anticipating demand for services from key customers. On 16 June 2014, SZG provided FY14 EBITDA guidance in the range of $2 million to $2.5 million and on 5 August 2014, SZG revised its FY14 EBITDA guidance down to an EBITDA loss of $0.8 million;

— The coal mining industry has been impacted by the combination of low coal prices and a persistently high Australian dollar. These pressures have forced coal mining operations to reduce capital expenditure, delay service and maintenance expenditure and rationalise internal cost structures. While there has been some recent improvement for Hunter Valley coal mining, many issues driven by low coal prices and the high Australian dollar persist. Consequently, the irregular approach by many of SZG's key customers regarding scheduled service and maintenance expenditure may continue in the short to medium term.

In light of the above discussion, we have viewed SZG's FY12 and FY13, FY14 and forecast FY15 EBITDA performance as representing 'reasonable years' (FY12 and FY13), a 'poor year' (FY14) and a 'good year' (FY15), respectively. On this basis, we have selected an estimated FME of **$10,000,000** to be applied in our valuation, broadly equal to the average of normalised EBITDA achieved or forecast by SZG for FY12 (annualised basis), FY13, FY14 and FY15.

7.1.3 Capitalisation Multiple

In selecting a capitalisation multiple to apply in the valuation of SZG we considered the trading multiples of companies listed on ASX that operate within the mining services industry. We then assessed the comparability of these companies to SZG. Whilst we found that the operations of these companies are not identical to those of SZG, we consider that these companies would be broadly comparable as they operate in a similar industry and thus are influenced by similar demand drivers and are exposed to similar risks as SZG. Consequently, we are satisfied that they provide an appropriate benchmark against which to determine a capitalisation multiple for the valuation of SZG. In making our selection we have excluded those companies with a negative EBITDA.

The following table provides a summary of the comparable companies identified together with their respective enterprise value/EBITDA trading multiples as at 29 June 2014 based on historical financial information and broker estimates. Further information on these companies has been included as Appendix E of this Report.

Table 14 – Capitalisation Multiples of Comparable Listed Companies

Company	Quote Symbol	Market Capitalisation 29 June 2014 ($m)	Enterprise Value / EBITDA	
			Last Twelve Months	Forward
Austin Engineering	ASX:ANG	134.8	7.2x	8.2x
Emeco Holdings Limited	ASX:EHL	122.4	4.9x	5.3x
Resource Equipment Ltd	ASX:RQL	37.1	5.5x	4.6x
Boom Logistics Ltd	ASX:BOL	59.4	3.4x	3.6x
Mastermyne Group Limited	ASX:MYE	34.7	2.5x	3.5x
Delta SBD Limited	ASX:DBE	5.7	3.0x	2.6x
Mean EBITDA multiple			**4.4x**	**4.6x**
Median EBITDA multiple			**4.2x**	**4.1x**

Source: Capital IQ

We have calculated the average and median current and forward EBITDA multiples outlined in the table above (excluding outliers) to be in the range of 4.1x to 4.6x.

Selected Capitalisation Multiple

We have adopted a capitalisation multiple in the range of 4.0x to 4.5x EBITDA to apply to the valuation of SZG.

7.1.4 Net debt

In order to determine the equity value of SZG, we have subtracted net debt as at the latest available date amounting to $22.2 million from the derived enterprise value. The composition of SZG's net debt as at 31 May 2014 is set out in the table below.

Table 15 – Net debt as at 31 May 2014

($000)	As at 31 May 2014
Cash and cash equivalents	2,359
Current borrowings	(3,146)
Hire purchase liabilities	(5,488)
Non-current borrowings	(16,000)
Net debt	**(22,275)**

Source: Information provided by SZG

7.1.5 Premium for control

As we have assessed the capitalisation multiple for SZG on a minority basis, an adjustment to our valuation to reflect a premium for control is necessary. A premium for control represents the difference between the market value of a controlling interest and a minority interest.

When an entity is owned 100% by a single shareholder, the shareholder is said to exercise control over that entity. In some cases, control over an entity may occur at a shareholding of less than 100%. Some of the benefits commonly associated with control include the ability to:

— Control the board of directors;

— Alter the entity's Constitution;

— Appoint and remove management and set their basis for remuneration;

— Change financial and operating policies of the entity;

— Access financial information and other information;

— Acquire and dispose of assets and businesses within the entity;

— Undertake borrowings on behalf of the entity;

— Access the entity's cash flows, including the payment of dividends; and

— Integrate the entity's business, operations, distribution and products with those of the investor.

The above benefits do not attach to minority investments and accordingly, a controlling interest is generally considered more valuable than a minority interest.

Wayne Lonergan in the publication "The Valuation of Businesses, Shares and Other Equity" states that "a typical control premium may be in the order of 25% to 40%". Further, Ernst & Young reviewed control premiums for Australian takeover transactions from 2002 to 2007 of 30 transactions covering small (less than $4 million market capitalisation) and large (up to $1.6 billion market capitalisation) acquisitions. The review suggests an average control premium of 27.8%.

In determining an appropriate range of premium for control to be applied in valuing SZG we believe that market participants exist that could be expected to extract synergistic or strategic value from SZG, driven by the following factors:

— Opportunity to rationalise fixed administrative overhead costs across an enlarged group;

— Access to SZG's customer base;

— Opportunity to increase utilisation of plant and workforce across the service volume of an enlarged group; and

— Access to new markets and products.

On this basis, for the purposes of determining the equity value of SZG on a control basis, we have applied a premium for control in the range of 25% to 30%.

7.1.6 Equity Value

Based on the foregoing discussion we have assessed that the equity value of SZG falls within the range $0.0876 to $0.1168 per share on a control basis and falls within the range $0.0701 to $0.0899 per share on a minority basis.

7.2 Secondary Valuation of SZG Shares

In determining the value of SZG shares, we have taken into consideration the following factors in accordance with ASIC Regulatory Guide 111:

— the depth of the market for SZG's shares; and

— the volatility of the market price.

A market valuation of listed securities is based on the efficient market hypothesis which assumes that the share market is totally efficient and that the share price of any security incorporates all publicly available information. The efficient market hypothesis assumes that shares listed on a stock exchange will always trade at their fair market value.

However, as noted in Section 4.8, we have reviewed the trading history of the listed shares in SZG over the 12 months ended 30 June 2014. We regard this to be the appropriate period for consideration, as any trading after that date will reflect the terms of the Proposed Transaction.

Based on the details set out in Section 4.8.1, in our opinion, trading in SZG's shares is not sufficiently liquid to enable a valuation based on quoted market prices to be undertaken as:

— SZG's shares only traded on 50% of available trading days during the six-months prior to 17 June 2014; and

— the total number of shares traded during the period comprised only 22.1% of the average SZG shares on issue during the period.

As noted in Section 4.6.2, during November 2013, SZG raised $8.1 million pursuant to a placing ($2.4 million) and a non-renounceable entitlement offer ($5.7 million). These capital raisings were conducted at $0.10 per share, which represented a discount of 20% to the prevailing share price at that time.

We understand that the shares issued to shareholders under the placement and entitlement offer represented freely negotiated transactions in an open and unrestricted market between knowledgeable, willing, but not anxious, parties acting at arm's length. Accordingly, in our opinion, these transactions represent an appropriate secondary valuation approach to determine the fair market value of shares in SZG.

Per our primary valuation methodology, as set out in Section 7.1.1, we have valued SZG shares on a minority basis in the range of $0.07 to $0.09. We are of the view that the issue price of shares under the placement and under the entitlement offer is broadly consistent with and supports our valuation of SZG shares using our primary valuation methodology. We note that at the entitlement offer price of $0.10 per share, only 24,195,000 shares were subscribed for out of 62,819,947 new shares offered and a shortfall notice issued to the underwriter for the remaining shares.

7.3 Conclusion

In our opinion, based on the analysis set out above, the fair market value of the issued shares in SZG falls within the range $0.0876 to $0.1168 per share on a control basis and within the range $0.0701 to $0.0899 per share on a minority basis.

8. Valuation of TMD

8.1 NTA Valuation of TMD

8.1.1 Book Value of TMD

Based on the unaudited proforma statement of financial position set out in Table 10 above, TMD reported net assets of $1.4 million as at 30 June 2014. TMD's main asset is the Premises and this has been financed by way of bank debt and related party loans.

8.1.2 Valuation of the Thomas Mitchell Drive property

In its report dated 17 April 2014, TPC has assessed the value of the Premises to be $11.9 million, based on:

— Summation of land and buildings;

— Direct comparison with sales evidence; and

— Capitalisation of net returns.

We have adopted TPC's valuation for the Premises in our valuation workings.

We have relied on the TPC Report as TPC is an expert property valuer with the necessary qualifications and experience. As such, we have performed a limited review of TPC's valuation of the Premises and note the following:

— TPC has employed several valuation methodologies as the basis for its valuation of the Premises, as follows:

  a) Direct Comparison: based on direct comparison with recent transactions of comparable properties;

  b) Capitalisation of Rental Income: a capitalisation approach based on estimated net income capitalised at an appropriate yield, and

  c) Summation: land value is summated with the depreciated value of the existing and proposed improvements.

— The valuation prepared by TPC for the Premises is its "current market value" as if proposed improvements have been completed and subject to final inspection and subject to existing tenancies. Current market value is defined by TPC as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had acted knowledgeably, prudently and without compulsion". We recognise that RG111.67 requires that real property assets in the process of development should be valued on the basis of their current market value rather than on an 'as complete' basis. However, given that renovations required to complete the Premises are minimal, that the remaining renovation work can be reliably estimated and the purchase price being paid by SZG for TMD takes into account the renovations required to the Premises, we have accepted TPC's valuation of the Premises on an 'as if complete' basis.

— TPC has inspected the Premises and gathered all information considered relevant and necessary for carrying out its valuation;

— The valuation report is dated 17 April 2014 and was specifically prepared by TPC for William Buck for the purpose of this Report.

Based on our limited review of TPC's valuation in relation to the Premises, we are satisfied that all material information has been taken into account in the preparation of the valuation and that the valuation has been prepared on a reasonable basis.

8.1.3 Fair Market Value of TMD

Table 16 below, sets out the adjusted value of the net assets of TMD, taking into the account the market value of the Premises provided in the TPC Report.

The adjusted market value of TMD has been determined on the basis of the unaudited accounts of TMD as at 30 June 2014.

Table 16 – Adjusted Value of TMD Net Assets

($000)	Reference	As at 30 June 2014
Market value of the Premises	8.1.2	11,900
Less: Book value of the Premises	Table 10	9,957
Market value adjustment (A)	*Note 1*	**1,943**
Net assets as at 30 June 2014	Table 10	1,478
Add: Market value adjustment	**(A)**	1,943
Less: Deferred income tax liability on market value adjustment	*Note 2*	(583)
Less: Deferred income tax liability arising from debt novation	*Note 3*	(186)
Adjusted value of net assets as at 30 June 2014		**2,652**

Source: William Buck assessment and TPC Report

Notes:

1. *The purpose of the market value adjustment is to restate the value of the Premises in the balance sheet of TMD as at 31 December 2013 from historical cost to market value.*
2. *Deferred income tax liability adjustment on revaluation of the Premises from book value to market value, calculated as 30% of the market value adjustment, on the basis that the book revaluation of the Premises will not alter the cost base of the asset for taxation purposes.*
3. *TMD has entered into a Novation Deed as between Scott Farrell et al. This deed may potentially give rise to an application of the Forgiveness of commercial debts provisions of the Income Tax Assessment Act 1997 per section 245-36 of that Act with a consequential potential adjustment in the tax cost basis of the assets of TMD. The valuation of TMD reflects this potential adjustment based on certain additional assumptions.*

8.2 Conclusion

In our opinion, on the basis of the NTA valuation method, which we have determined to be the most appropriate valuation approach for the fair market value of the issued shares and units in TMD, the fair market value of net assets to be acquired by SZG under the Proposed Transaction is $2.65 million.

9. Evaluation of the Proposed Transaction

9.1 Basis of the Evaluation of the Proposed Transaction

In our opinion, the Proposed Transaction will be fair and reasonable if:

— the fair market value of shares in SZG on a control basis prior to the Proposed Transaction is greater than the fair market value of shares in SZG subsequent to the Proposed Transaction on a minority basis;

— on balance, the advantages to the Non-Associated Shareholders of approving the Proposed Transaction outweigh the disadvantages; and,

— on balance, the disadvantages to the Non-Associated Shareholders of not approving the Proposed Transaction outweigh the advantages.

9.2 Assessment of Fairness of the Proposed Transaction

Based on our analysis, we set out below a summary of our valuation opinion in respect of the Proposed Transaction comprising a comparison between:

— the fair market value of shares in SZG on a control basis prior to the Proposed Transaction; and

— the fair market value of shares in SZG subsequent to the Proposed Transaction on a minority basis.

Table 17 – Assessment of Fairness

	Reference	Low Range ($)	High Range ($)
Pre Proposed Transaction:			
Equity value per share (control basis)	**7.1.1**	**$ 0.0876**	**$ 0.1168**
Post Proposed Transaction:			
SubZero: Equity value (minority basis) ($000)	**7.1.1**	**17,725**	**22,725**
Adjusted net assets of TMD (control basis) ($000)	8.2	2,652	2,652
Ad valorem stamp duty on acquisition of TMD	*Note 1*	(595)	(595)
Minority discount	*Note 2*	(20.00%)	(23.08%)
Adjusted net assets of TMD (minority basis) ($000)		**1,646**	**1,582**
Equity value (minority basis) ($000)		**19,371**	**24,307**
Number of shares ('000)	*Note 3*	281,235	281,235
Equity value per share (minority basis)		**$ 0.0689**	**$ 0.0864**

Source: William Buck analysis

Notes:

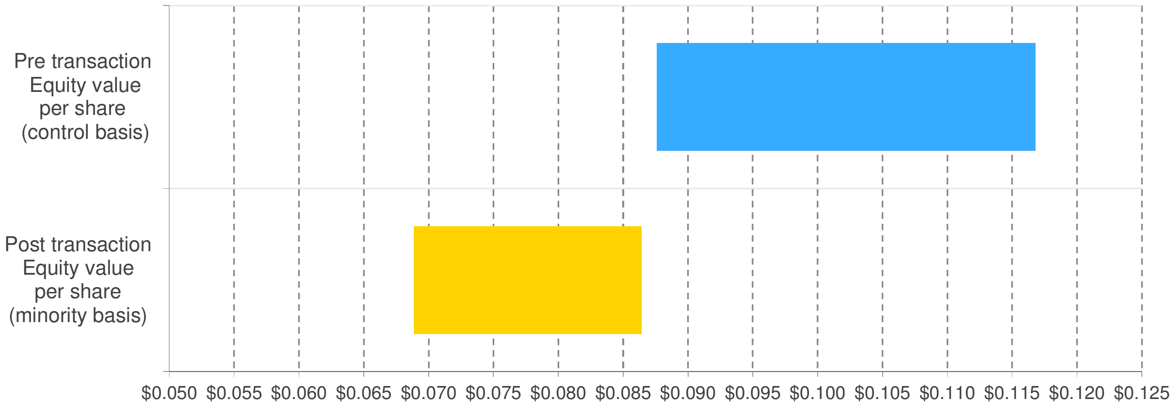
1 *Stamp duty in relation to the acquisition of TMD has been calculated based on a rate of stamp duty of 5% and the market value of the Premises at $11.9 million.*

2 *The minority discount applicable to TMD has been calculated based on the control premium range adopted in our valuation of SZG using the following formula: Minority Discount = 1 – [1/(1 + Control Premium)].*

3 *Post transaction equity value per share has been calculated based on current issued share capital of 252,915,402 ordinary shares plus maximum shares to be issued as part of the Proposed Transaction being 28,320,000.*

A graphic representation of the comparison of our valuation ranges is set out below:

Figure 10 - Fairness Assessment



Source: William Buck

It may be seen from the above that our valuation of SZG pre-transaction on a control basis exceeds our valuation of SZG post-transaction on a minority basis.

Accordingly, in our opinion, the Proposed Transaction is considered **not fair** from the perspective of the Non-Associated Shareholders of SZG.

9.3 Assessment of Reasonableness of the Proposed Acquisition

We have considered the following factors in determining whether or not the Proposed Transaction is reasonable to the Non-Associated Shareholders of SZG.

9.3.1 Advantages of approving the Proposed Transaction

The following may be considered advantages of approving the Proposed Transaction:

Access to working capital funding and lower funding costs

On 16 April 2014, SZG announced that loan documentation had been signed in relation to a new $16 million working capital facility provided by a syndicate of lenders led by Macquarie Bank Limited.

The purpose of the new working capital facility is to replace debtor financing facility of $12.4 million provided by Scottish Pacific Debtor Finance, eliminate an overhang of trade creditors and provide general ongoing working capital to the business. The new facility provides SZG with lower funding costs and additional capacity to manage the business for future growth.

With the downturn in trading in FY13 and the first half of FY14, SZG has had urgent working capital requirements. SZG's debtor financing provided limited working capital due to debtor concentration restrictions applied by Scottish Pacific. At the date at which the Scottish Pacific facility was replaced by the Macquarie Bank facility, SZG management estimates that only $2.9 million was available and drawn down by SZG.

We understand that the Macquarie Bank working capital facility of $16 million has been provided on the basis of the following options, each of which would require approval by SZG shareholders:

- Obtain a cross-guarantee between SubZero Group Limited and TMD Investments Pty Limited ATF TMD Unit Trust; or
- Acquire the issued shares and units of TMD.

TMD holds an investment property valued at $11.9 million which adds to Macquarie Bank's security. Without either providing the cross –guarantee or acquiring TMD, SZG management estimates that the working capital facility available to SZG through Macquarie Bank would have been limited to $14 million.

Secure the right to use the 39 – 43 Thomas Mitchell Drive premises

The premises are the sole asset of TMD and are located directly opposite BHP Billiton Limited's Mount Arthur Coal Mine on Thomas Mitchell Drive in Muswellbrook. The Mount Arthur Coal Mine is a major SZG customer.

SZG management believes that the location of the premises provides SZG with a significant strategic advantage over its competitors in relation to the provision of services to BHP Billiton Limited and directly results in BHP Billiton Limited using SZG's services. Accordingly, SZG management is of the view that the premises are of critical importance to SZG's business and profitability.

Acquisition of TMD secures SZG's right to use of the premises.

Changed risk profile

The Proposed Transaction will result in SZG's debt to equity ratio decreasing from 990% to 515%. The decrease in financial leverage represents a change in the risk profile and a decrease in risk to SZG shareholders.

Arm's length basis

We understand that the terms of the Proposed Transaction were negotiated on an arm's length basis.

9.3.2 Disadvantages of approving the Proposed Transaction

The following may be considered disadvantages of approving the Proposed Transaction:

The Proposed Transaction is "not fair"

Based on valuation of SZG pre-transaction on a control basis our valuation of SZG post-transaction on a minority basis, we have concluded that the Proposed Transaction is not fair from perspective of the Non-Associated Shareholders of SZG.

Dilution of existing SZG shareholders' interests in the SZG

By approving the Proposed Transaction the interests of the Non-Associated Shareholders will be diluted.

Increased interest of majority shareholder

The assumption of the maximum shares to be issued pursuant to the Proposed Transaction, Mr Farrell' (and his associates) interest in SZG will increase from 21.2% to 29.1%.

The presence of such significant shareholding generally both reduces the liquidity of a Company's share trading and reduces the likelihood that the Company will be the target of any potential takeover activity.

9.3.3 Advantages and disadvantages of not approving the Proposed Transaction

In our view, the significant disadvantage of rejecting the Proposed Transaction include the reverse of the matters noted above, as well as the following:

Requirement to seek alternative shareholder approval

As noted above, per the terms of the MBL working capital facility, MBL requires SZG to either provide cross-guarantee with TMD or to acquire TMD. The Directors of SZG elected to acquire TMD given the strategic importance of the Premises to SZG. If the Proposed Transaction is not approved, SZG will require shareholder approval to provide a cross-guarantee with TMD and there is no guarantee that the share and unit holders of TMD will also wish to enter into the cross-guarantee.

9.3.4 Overall conclusion on advantages and disadvantages of the Proposed Transaction

In our opinion, based on a consideration of the above, the Proposed Transaction is considered reasonable from the perspective of the Non-Associated Shareholders of SZG as:

- on balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it to the Non-Associated Shareholders; and
- on balance, the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting it to the Non-Associated Shareholders.

9.4 Conclusion on Proposed Transaction

In our opinion the Proposed Transaction is, on balance, **not fair**, but is **reasonable** to the Non-Associated Shareholders of SZG.

On balance, the advantages of approving the Proposed Transaction outweigh the disadvantages to the Non-Associated Shareholders and the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting the Proposed Transaction.

10. Qualifications

10.1 Qualifications

William Buck has extensive experience in the provision of corporate finance advice including with respect to mergers and acquisitions.

William Buck is an authorised representative of William Buck Financial Services (NSW) Pty Ltd which holds an Australian Financial Services Licence issued by ASIC for giving expert reports pursuant to the Listing Rules of the ASX and NSX and the Act.

The William Buck personnel responsible for the preparation of this Report are Mr Mark Calvetti and Mr Daniel Coote.

Mr Mark Calvetti is a director of William Buck. He is a Chartered Accountant and holds a Bachelor of Business (Accounting and Finance) degree from the University of Technology, Sydney. Mr Calvetti has over 28 years' experience in Chartered Accountancy and has had extensive experience in the areas of litigation support, preparation and review of business feasibility studies, financial investigations, business valuations, independent expert's reports and due diligence reviews. His valuation experience covers a wide range of industries for both public and private companies. Accordingly, Mr Calvetti has the appropriate experience and professional qualifications to provide the advice offered.

Mr Daniel Coote is a principal of William Buck, is a Chartered Accountant, and holds Bachelor of Commerce and Master of Applied Finance degrees from Macquarie University. Mr Coote has over 13 years' experience in Chartered Accounting and regularly advises clients on corporate transactions and is experienced in the provision of valuations of shares and businesses for a variety of applications. Accordingly, Mr Coote has the appropriate experience and professional qualifications to provide the advice offered.

10.2 Independence and Declarations

William Buck is not aware of any matter or circumstance that would preclude it from preparing this report on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

William Buck considers itself to be independent in terms of RG 112: Independence of Experts, issued by ASIC.

Neither William Buck, nor any of its related entities, have acted for SZG with regard to any matter in the past and we are not aware of any matters or relationship that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

William Buck is entitled to receive a fee for the preparation of this Report of approximately $50,000 plus GST and disbursements. This fee is not contingent on the outcome of the Proposed Transaction. Except for this fee William Buck has not received and will not receive any pecuniary or other benefit, whether direct or indirect, for or in connection, with the preparation of this Report 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.

In addition, TPC is entitled to receive a fee for the preparation of the TPC Report of approximately $6,600 inclusive of GST and disbursements. This fee, whilst incurred by William Buck, will be passed on and reimbursed by SZG.

Three drafts of this Report were provided to the Directors of SZG for review of factual accuracy, as opposed to opinions, which are the responsibility of William Buck alone. Certain changes were made to the report as a result of the circulation of the draft reports. However, no changes were made to the methodology, conclusions or recommendations made to the Non- Associated Shareholders as a result of issuing the draft reports.

The statements contained in this Report are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

11. Appendices

11.1 Appendix A – Sources of Information

a) SZG announcements in relation to the terms of the Proposed Transaction;

b) SZG's annual reports and announcements made to the ASX;

c) Historical share trading data for SZG obtained from S&P Capital IQ;

d) Publicly available economic analysis reports published by major Australian trading banks and economic forecasting bodies;

e) Publicly available industry analysis reports published by industry research companies;

f) Discussions and correspondence with management of SZG;

g) Share and Unit Sale Agreement to acquire all the issued shares of TMD Investments Pty Ltd ATF TMD Unit Trust and the units of the TMD Unit Trust;

h) SZG Share Register as at 5 June 2014;

i) TMD unaudited special purpose financial statements as at 30 June 2014;

j) TPC Property Valuation Report; and

k) Novation Deed between TMD Investments Pty Ltd and Mr Farrell.

11.2 Appendix B – Abbreviations and Definitions

Term	Definition
Act	Corporations Act 2001
APES	Accounting Professional and Ethical Standard
ASAE	Australian Standards on Assurance Assignments
ASIC	Australian Investments and Securities Commission
ASRE	Australian Standards on Review Assignments
ASX	ASX Limited ACN 008 624 691
ASX Listing Rules	Rules of ASX which are applicable while the Company
ASX Listing Rule 10	The provisions set out in Chapter 10 of the ASX Listing Rules
AUS	Australian Auditing Standards
DCF	Discounted cash flow
Directors	The directors of SZG
EBITDA	Earnings Before Income, Tax, Depreciation and Amortisation
EM	Explanatory Memorandum issued in connection with the Proposed Transaction
FME	Future maintainable earnings
FY	Financial Year ended or ending
Historical Trading Period	The historical market trading in SZG's shares over the period from 22 April 2013, the date to SZG's admission to the ASX, to 17 June 2014
JMAA	J M Auto Australia Pty Ltd ATF the JM Investments Trust
MBL	Macquarie Bank Limited
Non-Associated Shareholders	Those shareholders in SZG whose votes are not to be disregarded in voting on the resolutions relating to the Proposed Transaction
Novation Deed	Novation Deed between TMD Investments Pty Ltd and Mr Farrell dated 8 August 2014
NTA	Net assets on a going concern basis
Projections	Prospective financial information prepared by the management of SZG based on the current operations of SZG and future plans in existence
Premises	The industrial property located at 39 – 43 Thomas Mitchell Drive held by TMD
Proposed Transaction	The transaction for the acquisition of all the issued shares in TMD which is the subject of this Report
Purchase Price	A purchase price of $3,555,088, assuming an SZG price per share of $0.10, for the shares and units of TMD and the JMAA Loan.
Report	This report prepared by William Buck dated 8 August 2014

RG	Regulatory Guides issued by ASIC
RG 111	Regulatory Guide 111: Content of Expert Reports
RG 112	Regulatory Guide 112: Independence of Experts
RG 170	Regulatory Guide 170: Prospective financial information
ScotPac	Scottish Pacific Debtor Finance
Section 606	Section 606 of the Act
Section 611	Section 611 of the Act
Shareholders	The holders of fully paid ordinary shares in SZG
SSA	Share and Unit Sale Agreement to acquire all the issued share and the units of TMD
SZG or the Company	SubZero Group Limited
TMD	TMD Investments Pty Ltd and TMD Unit Trust
TMD Investments	TMD Investments Pty Ltd
TMD Trust	TMD Unit Trust
TPC	Tew Property Consultants
TPC Report	Independent Property Valuation Report prepared by TPC dated 17 April 2014
VWAP	Volume Weighted Average Price
William Buck , we, us, our	William Buck Corporate Advisory Services (NSW) Pty Ltd ACN 133 845 637

11.3 Appendix C – Copy of TPC Report

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REPORT AND VALUATION

OF

FREEHOLD INDUSTRIAL LAND AND
EXISTING & PROPOSED IMPROVEMENTS

SITUATE

NO 39-43 THOMAS MITCHELL DRIVE,
MUSWELLBROOK NSW 2333

FOR AND ON BEHALF OF

WILLIAM BUCK CORPORATE
ADVISORY SERVICES (NSW) PTY LTD

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EXECUTIVE SUMMARY

PROPERTY ADDRESS

No 39-43 Thomas Mitchell Drive
MUSWELLBROOK NSW 2333

INTEREST VALUED

Fee Simple in Possession

TITLE PARTICULARS

Lots 26-28 in Deposited Plan 260504

PROPERTY TYPE

Industrial Land and Existing and Proposed Improvements

BASIS OF VALUATION

Comparable Sales Analysis

DATE OF INSPECTION	17th April 2014
DATE OF VALUATION	17th April 2014
DATE OF REPORT	17th April 2014

VALUATION SCHEDULE

Current Market Value for Asset Assessment Purposes

$11,900,000 excluding Goods and Service Tax – if applicable

The valuation is carried out on the following bases:

- "AS IF" proposed improvements have been completed and subject to final inspection.
- Subject to existing tenancies – continuation of existing use.

VALUATION QUALIFICATIONS

We have assumed the Title is clear and marketable and the valuation is reported without questions of updated surveys, boundaries, encumbrances, encroachments and outstanding Notices.

The investigations, enquiries and inspections necessary to confirm such matters as are the province of others having the appropriate & necessary skills, have not been undertaken by us. If the information so furnished to us is incorrect and our assumptions based on that information are incorrect, our opinion as to the value assigned may be affected.

This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

This Report & Valuation has been prepared specifically and confidentially under instructions from **William Buck Corporate Advisory Services (NSW) Pty Ltd**, Level 29, 66 Goulburn Street, Sydney NSW 2000, for the purpose of inclusion in an independent experts report prepared by William Buck Corporate Advisory Services (NSW) Pty Ltd.

This valuation is for the use only of the party to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or part of the contents of this valuation.

Neither the Valuer, the Firm, its Directors nor other employees have any direct or indirect pecuniary interest in the property being valued, the owner or agent or any other person or entity involved in the property or proposal.

This valuation is NOT for mortgage purposes.

Refer to our terms and conditions as are represented at the conclusion of this valuation report.

Liability limited by a scheme approved under Professional Standards Legislation.

INSTRUCTIONS

Mr Daniel Coote
Principal
William Buck Corporate Advisory Services (NSW) Pty Ltd
Level 29
66 Goulburn Street
SYDNEY NSW 2000

REGISTERED PROPRIETORS

Lot 26 in Deposited Plan 260504 - TMD Investments Pty Limited

Lot 27 in Deposited Plan 260504 - TMD Investments Pty Limited

Lot 28 in Deposited Plan 260504 - TMD Investments Pty Limited

INTEREST TO BE VALUED

The Fee Simple in Possession of the subject property as at the **17th April 2014.**

PURPOSE OF VALUATION

To determine the **Current Market Value** of the subject property for the purpose of inclusion in an independent experts report prepared by William Buck Corporate Advisory Services (NSW) Pty Ltd as at **17th April 2014.**

DEFINITION OF CURRENT MARKET VALUE

Current Market Value is defined as being **"The estimated amount for which a property should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had acted knowledgeably, prudently and without compulsion.**

RELEVANT DATES

DATE OF INSPECTION	17th April 2014
DATE OF VALUATION	17th April 2014
DATE OF REPORT	17th April 2014

THE LOCATION

The subject property is situated on the north-eastern corner of an intersection between Thomas Mitchell Drive and Carramere Road, approximately five kilometres south of the Muswellbrook CBD and 130 kilometres north-west of the Newcastle CBD.

The subject property is situated within the established Muswellbrook Industrial Park which is a small industrial estate situated south west of Muswellbrook on the eastern side of Thomas Mitchell Drive. Thomas Mitchell Drive provides easy access to the New England Highway, which is approximately 7.5 kilometres to the east of subject estate.

Muswellbrook is a rural based community situated within the Hunter Valley of New South Wales and is the administrative centre of the Muswellbrook Local Government Authority.

Muswellbrook is a sizeable regional centre – estimated population of 11,042 as at 2011 Census.

The Muswellbrook Local Government Area and broader Hunter Valley provides an extensive range of farming producers including horse, cattle, sheep, pigs and poultry for domestic and overseas markets. In addition there are extensive coal mining and equine operations within the general locality.

The equine industries, mining and to a lesser extent farming exports are major economic divers of the local economy.

The primary source of confidence in the locality is derived from the coal mining and energy sectors with international demand for coal driving expansion in the local industry which in turn is driving employment and development of ancillary services.

The mining sector has evidenced a stark reduction in employees and particularly contract labour - in the period from late 2012 to date. We do not consider this reduction will be permanent – quite the contrary – longer term we have confidence in the Hunter Valley's economy and growth prospects – encouraged by the broad base of contributors to the economy. The broader Hunter Valley in general also provides a strong and varied economy and strong residential growth.

Muswellbrook Local Government Authority has the second highest rate of coal extraction in New South Wales with over 80 million tonnes identified for production by 2014.

Surrounding development comprises a mix of industrial development, semi-rural hobby blocks as well as small to medium scale rural pursuits including cattle production, viticulture and hobby farming.

Within the broader locality enterprises include; Lucerne production, thoroughbred breeding, education and training, viticulture, dairying as well as coal mining and electricity generation.

THE LAND

The subject property provides three (3) x independently titled regular shaped, gently sloping contiguous allotments.

Lot 28 provides a truncated corner, positioned at the intersection of Thomas Mitchell Drive and Carramere Road.

We are advised by a representative of our instructing party that the subject site has been cut, filled, retained and compacted to provide a near level building platform and curtilage. Further we are advised that the land compaction has been tested to a load bearing capacity of 250 tonnes. We have not been provided with documentation attesting to the load bearing capacity of the subject land.

Lot	**Frontage (m)** Thomas Mitchell Drive	**Depth (m)**	**Rear Line**	**Area (m2)**
26	40.00	116	40.00	4,640
27	40.00	116	40.00	4,640
28	36.94	116/112	40.94	4,741
		Total Area		14,021

The property provides frontage to Thomas Mitchell Drive and Carramere Road and a total consolidated site area of 14,021m^2. The subject property provides broad exposure to Thomas Mitchell Drive which is a heavily trafficked link road.

We have not been provided with a current Plan of Survey at the date of inspection. However, for the purposes of this report we have assumed that there are no known easements or apparent encroachments by or upon the subject property.

TITLE REFERENCE

All that piece or parcel of land being **Lots 26, 27 & 28 in Deposited Plan 260504**, situate in the Local Government Area of Muswellbrook, Parish of Brougham, County of Durham and being the whole of the land contained in **Certificate of Title Folio Identifier 26/260504, 27/260504 & 28/260504.**

There is a long term lease to Subzero Holdings Pty Limited which expires 30/9/2027 with 3 x options periods of 5 years each listed on the title documents.

In addition, there is a Caveat listed on the title documents of Lot 28, which we recommend be fully investigated as to impact upon value. Should the outcome of such investigations reveal a detrimental impact upon value we recommend this valuation be returned for reconsideration.

TOWN PLANNING

Zone IN1 General Industrial under the provisions of the Muswellbrook Local Environmental Plan 2009. However, this should be verified by a Certificate under Section 149 of the Environmental Planning & Assessment Act 1979 from the responsible authority.

1 Objectives of zone

- To provide a wide range of industrial and warehouse land uses.
- To encourage employment opportunities.
- To minimise any adverse effect of industry on other land uses.
- To recognise existing industries and to encourage the establishment of new industries so as to expand the local employment base, and to minimise any adverse effects of industry on residential communities.
- To accommodate larger industries or those which potentially could create nuisance in locations separated from residential areas but accessible to the workforce.
- To enable development that is associated with, ancillary to, or supportive of industry or industrial employees.

2 Permitted without consent

Nil

3 Permitted with consent

Air transport facilities; Car parks; Community facilities; Crematoria; Depots; Drainage; Earthworks; Environmental facilities; Environmental protection works; Flood mitigation works; Freight transport facilities; Heavy industries; Helipads; Industrial retail outlets; Information and education facilities; Kiosks; Light industries; Liquid fuel depots; Neighbourhood shops; Public administration buildings; Recreation areas; Recreation facilities (indoor); Recreation facilities (outdoor); Roads; Rural industries; Service stations; Sewerage systems; Sex services premises; Signage; Storage premises; Take away food and drink premises; Tank-based aquaculture; Timber and building supplies; Transport depots; Truck depots; Vehicle body repair workshops; Vehicle repair stations; Vehicle sales or hire premises; Warehouse or distribution centres; Waste or resource management facilities; Water supply systems; Wholesale supplies

4 Prohibited

Any development not specified in item 2 or 3.

MINE SUBSIDENCE

We are advised by Muswellbrook Council that the subject site is situated within a Mines Subsidence Area.

We recommend our client undertake independent enquiries of the Mine Subsidence Board in order to ascertain the impact or other of mine subsidence upon the subject property. Should investigations reveal the requirement for an inordinate capital input in order to address mine subsidence concerns, then we recommend that our valuation be returned for reconsideration.

We have valued the subject property assuming there are no adverse impacts upon market value as a consequence of Mine Subsidence.

UTILITY SERVICES

Electric power, reticulated water, septic and telephone are connected to the subject property.

Thomas Mitchell Drive and Carramere Road are bitumen sealed carriageways with concrete formed kerb and gutter at the subject property frontage.

SITE CONTAMINATION

We have inspected the Environmental Protection Authorities register for contaminated lands as are issued with notices and advise that the subject site is not represented on that register.

To the best of our knowledge the subject land is free of any contamination which may preclude its sale in the current market. However, we are not able to state categorically that no contamination of the subject site has occurred and we recommend our Client seek the services of an experienced Environmental Engineer and the Environmental Protection Authority to satisfy themselves in this regard.

For the purposes of this report we have valued the subject site on the basis that it is not contaminated.

THE EXISTING & PROPOSED IMPROVEMENTS

The subject property comprises a substantially completed industrial development providing two (2) x industrial factory/warehouse buildings. We have been provided with building plans and areas of the subject buildings and utilised those areas in our consideration of value.

Building A - comprises a large high bay factory building. The building provides open plan factory floor and is proposed to provide one (1) x level of office/amenities. There are four (4) x sliding door access points located along the western and eastern elevations of the building. The building is approximately 15.50 meters to the eaves. Each sliding door opening is 16 metres wide and 14 metres high.

Building B - comprises a high bay factory building. There are three (3) x sliding door access points located along the western elevation of the building. The building is approximately 15.50 meters to the eaves. Each sliding door opening is 16 metres wide and 14 metres high.

The general construction comprises as follows:

Foundations:	Reinforced concrete
Floor:	Reinforced concrete
Frame:	Steel portal frame and pitched steel roof frame.
Cladding:	Metal cladding.
Lighting:	Quartz halogen style lighting.
Height:	15.50 metres to eaves

Building Areas

Improvements	Floor Area - M2
Factory A (includes office/amenities footprint)	7,054
Offices /Amenities (proposed – within factory A)	628
Factory B	1,733

General Comments

As at the date of inspection the subject improvements had not been completed. Works which are yet to be completed include the following:

- Reinforced hardstand – working curtilage/access and parking areas.
- Installation of sliding doors to both buildings.
- Office area – we are advised by the registered proprietor that the office area will be constructed to finished floor standard and the fit-out is the responsibility of the sitting tenant.

The proposed industrial improvements provide vehicular access from Thomas Mitchell Drive and Carramere Road (each with electric sliding security gates).

In addition, there are some 63 x visitor car parking spaces identified on the plan.

Both buildings provide large span (approximately 97 metres) and provide steel frames with additional vertical internal supports. As a consequence of the building design (large span) we are advised that there is nil capacity for the buildings to support a crane from the existing building frame. All internal lifting is proposed via travel cranes.

Basic landscaping is identified on the plans and have assumed will be completed along with other works as are identified.

TENANCY SCHEDULE

We have been provided with a copy of a registered Lease document signed and dated 1/10/2012 for the subject property. Details are as follows:

Lessor:	TMD Investments Pty Ltd
Lessee:	Subzero Holdings Pty Limited
Lease Term:	15 years
Commencing Date:	1st October 2012
Terminating Date:	30th September 2027
Tenancy Area:	8,787m^2
Option to Renew:	3 x 5 years periods
Commencement Rental:	$1,100,000 per annum net plus GST.
Passing Rent:	$1,138,500 per annum net plus GST (as calculated – fixed 3.5% increase)
Review Mechanisms:	3.5% fixed annual increases. Market rent review at option.
Outgoings:	Lessee's proportion 100%

Comment:

There is a requirement to refurbish the subject building at each 5th anniversary of the commencement of the subject Lease.

We draw particular attention to the fact that (certainly at commencement of the Lease) the Lessor and Lessee were related parties. The passing rent evidences $129.57/m^2/annum of total building area (including office area).

We draw attention to a brief period of three months (Oct – Dec 2012) wherein a reduced rent was agreed (refer Clause 4 of the Lease). Whilst we have not been formally advised as such, we have assumed the period of reduced rent was specific to the fact construction works were being carried out.

We are of the opinion that the passing rental is above a range reflective of market rent with consideration to contributing factors of value including large scale and specialised improvements as is outlined supra.

For the purposes of this report, we have considered an estimated market rental in our calculations of value. In addition we have considered the profit rental it is anticipated for the term certain remaining of the existing lease.

We note that the office area, installation of sliding doors and hardstand areas (car parking) have not been completed, however as instructed, we have considered value on an 'as if' completed basis.

THE INDUSTRIAL MARKET

Vacant Land

The success story of real estate categories in the Lower Hunter and Central Coast region during the past 15 years has been the industrial sector, led by the latter stages of the Cardiff Industrial Estate which were opened in 1992 and sold readily to investors and owner/occupiers. Other industrial subdivisions on offer at the same time such as Sandgate and earlier precincts of Warabrook and Bennetts Green did not experience quite the same level of demand.

Following the release of land within industrial development including Thornton, Rutherford, the Holmwood & Freeway Business Parks at Beresfield, Gateway Estate at Morisset, the more recently released Cameron Park, Steel River, Tomago and Warnervale Industrial estates - demand for industrial land has switched to the western side of the city, for the most obvious reason, its location.

Recent releases of developed industrial land include an expansion of the Cardiff Industrial Estate (known as Cardiff Central), which is an extension of Munibung Road by a further 21 x industrial lots; The Freeway North estate at Beresfield; 25 industrial lots in the Bennetts Green Industrial and Business Park; 12 lots at Gateway Industrial Park at Morisset; a further 10 lots in the Steel River Estate at Mayfield West; and the Anambah Estate at Rutherford.

The majority of those described subdivisions are strategically situated to major motorways - at the northern entry to the F3 Freeway linking Newcastle and Sydney and have immediate access to both the New England and Pacific Highways.

The Rutherford development is servicing West Maitland and other townships as well as mining & power facilities in the Hunter Valley.

Warnervale is an emerging satellite city within the Wyong LGA and is anticipated to cater for the predominance of residential growth and industrial development over the ensuing 25 years in that broader locality. Older industrial areas on the Central Coast including; Fountaindale, West Gosford, Charmhaven and North Wyong have absorbed their existing land stocks and Somersby is directed towards larger scale industrial development. The Warnervale area provides for some 350 ha of land identified to cater for industrial development over the next 25 years.

Tomago, on the northern side of the Hunter River & Hexham is another industrial area which had been dormant for many years, save for the aluminium smelter & shipyard, but is also an area which has witnessed significant growth during the previous five years. A large recently developed industrial estate situated off Old Punt Road and Tomago Road at Tomago have evidenced steady demand for vacant allotments with increasing values a feature of early sales. More recently larger concerns including Westrac and Sandvik have expended significant capital on infrastructure and development of large holdings for corporate facilities which are directed towards industrial uses.

Carrington industrial area is limited insofar as it is surrounded by residential development and is also difficult to access as a consequence of that residential development and the changed road conditions of surrounding suburbs. Major port infrastructure is situated at Carrington and Mayfield East and adaptive reuse of existing lands is proposed for some locations however, major expansion is constrained as a consequence of limited land resource. Smaller pockets of former industrial land at Wickham have been redeveloped in recent years and are anticipated to be further developed in the future, but will not be suitable for general or heavy industrial uses in the medium to long term.

Kooragang is predominantly leasehold land which – for many years – was slow to attract prospective users for land removed from the harbour frontage. Consecutive State Governments have sold freehold interest in Kooragang land over a number of years to the extent that there are now a significant number of freehold allotments in the locality - although in the minority. Major infrastructure projects recently completed on Kooragang Island includes the NCIG coal loader project, PWCS coal loader project, increased bulk haulage and storage infrastructure as well as the proposed upgrade to and expansion of existing berths.

THE INDUSTRIAL MARKET (Cont'd)

Vacant Industrial Land (Cont'd)

The development of the Steel River industrial estate at Mayfield West has resulted in an evident take-up of industrial land and developments in proximity to the harbour and – over recent years – a reinvigoration of interest in industrial land in proximity to the Port and city.

We are aware of an agreement with the State Government to contribute to the remediation of former BHP land (140ha+) - by BHP – works carried by Hunter Development Corp - was reached in 2001. The land was handed over and Hunter Development Corporation commenced the remediation works. Some 90 hectares of the site has been remediated to date. Work is substantially completed and the site is ready for occupation.

A recently awarded tender for a small proportion of the former BHP parcel was won by a local firm and is anticipated to be progressively developed over coming years.

Newcastle Port Corp has advertised for expressions of interest for utilisation of the waterfront proportion of the site. Proposed long term use for the portside proportion of the former BHP land has achieved concept planning approval for container terminal, bulk liquid berth, general cargo and bulk cargo trade (approval as at 16-7-2012). Long term use of the site will be in accord with that approval.

Over the coming decade it is anticipated that the total tonnage throughput for the Port of Newcastle will increase markedly from its 2011/12 figures of 128,600,000 tonnes (up from 114,500 tonnes in 2010/11).

The major contributor being coal - throughput tonnage having risen from 108 million tonnes in 2010/11 to 121 million tonnes per annum in 2011/12 and anticipated to increase to over 200 million tonnes in 2015 – assuming supply continues to grow.

The scale of infrastructure necessary to facilitate such an increase is significant and is anticipated to be commenced by early 2013. An increase in capacities will underpin a concurrent increase in demand for ancillary services in related industries and as a consequence – an increase in demand for developed industrial land.

The modern Freeway South and Freeway North estates at Beresfield have evidenced steady demand at strong prices being achieved over the previous 12 months.

The middle and upper Hunter Valley communities evidence relatively small industrial land holdings. Singleton comprises Mt Thorley and Maison Dieu Estates, providing a mix of small, medium and large scale developments, whilst Muswellbrook Industrial Park is particularly directed towards mining services and related activities within larger scale developments. Scone includes a small industrial estate on the northern fringe of the village and which has recently been expanded through development - and caters more towards the light industrial scale of development.

Generally, there is a shortage of good quality available developed industrial land in proximity to transport routes and the harbour and port facilities. We anticipate that the level of release and take up of competing lands will result in values remaining steady over the short to medium term.

Longer term will result in increased values as available land stocks are taken up and new release areas are limited. For the present, however, developed industrial land continues to evidence steady demand and land in proximity to the major transport corridors and Port facilities are in strongest demand.

It is our understanding – following discussions with marketing agents – that marketing of vacant industrial allotments over the past 12 - 24 months has been steady but that in some estates a small reduction in pricing has resulted in a number of recent sales being affected and modest increases in enquiry has resulted.

Industrial land within proximity to the subject have evidenced moderate to slow demand over the previous 12-24 months.

THE INDUSTRIAL MARKET (Cont'd)

The international financial crisis – from which Australia is not immune – is causing concerns in a number of sectors including the property market. The successive increases in interest rates over the late 2007 – mid 2008 period resulted in a slowing down of the economy as anticipated.

However, as the broader international crises crystallised in Australian markets there was a rapid and marked reduction in interest rates applied by the Reserve Bank through late 2008 and early 2009 in an effort to increase confidence and spending.

Concurrently the Federal Government introduced a number of initiatives – including guaranteeing bank deposits, infrastructure roll out and increasing the first home owner's incentives – all of which was directed toward increasing employment, reinvigorating confidence and increasing spending. Such initiatives were welcome and have served to ameliorate the dire economic impacts as have and are being realised in other countries.

So successful were the initiatives in fact that the economy was observed as gaining momentum to the extent that the Reserve Bank applied six consecutive increases in interest rates through the latter stages of 2009 and early 2010 and again in November 2010.

The Reserve Bank chose to leave interest rates on hold for the majority of the 2011 period however decreased rates in November and December 2011. The four major banks adopted to apply an increase in borrowing rates in February 2012 – in contrast to the Reserve Bank's decision to leave interest rates on hold since December 2011.

The Reserve Bank has most recently made adjustments to interest rates – a decline of 0.5% and 0.25% - in May and June 2012 respectively and again adopting to decrease interest rates by 0.25% in each of October and December of 2012 and again in May and August 2013.

The Hunter Valley is well positioned (as compared to earlier decades) to ride out the current economic conditions as they impact the Australian economy as a consequence of a number of factors including; a more diverse employment sector, shared economic contributors based around Education, Health, Tourism, Agriculture, Resources, Defence, property and the service industry.

It is anticipated that over the next 25 years some 165,000 people will be relocating to the Lower Hunter Valley and available land resources – both suitable for development and zoned appropriately – are insufficient to cater for such a population influx without a marked increase in efficiencies in the rezoning of land and the timing of application and assessment through the development process.

We are not aware of any recent sales evidence to indicate a marked change in yield rates for industrial property. Industrial rental growth continues to at least match inflation and good quality properties are readily traded at similar yields to the corresponding period 12–36 months ago. Notwithstanding the volume of sales is evidently reduced – as commercial funding remains difficult to access, and there is evidence of continuing tight scrutiny of lending opportunities being applied by major lenders and investors.

THE INDUSTRIAL MARKET (Cont'd)

Improved Properties

The general trend in the Lower Hunter regional market shows moderate demand for vacant properties for sale & lease in the more popular locations and rent levels being negotiated at competitive rates. Our enquiries of local real estate agents active in the industrial field confirm that properties leased to sound tenants on longer term leases in newer industrial areas such as Cardiff, Portside (Wickham), Warabrook, Beresfield, Morisset, Thornton and Rutherford remain attractive to local investors where yields exceed 7.0% net, depending upon the age, type of building, condition and location.

Yields in the upper Hunter Valley areas - whilst firmer than those evidenced in the Lower Valley – are nonetheless steady and sales activity is evidencing a decline in demand over the previous 12-18 months. Capital growth is not anticipated to be as strong as that achieved in the lower Hunter Valley and therefore the requirement for a firmer yield is evident in sales achieved.

Owner/occupiers have become more obvious among buyers, possibly seeking to take advantage of stable prices, competitive rents and low interest rates.

It also appears that the supply of quality properties, both for sale and lease, is limited and as speculative development in industrial buildings has eased, the future availability of industrial buildings will remain in short supply and we expect values to hold at or about current levels in the short term.

Longer term will depend more on the national economic outlook and the progress of the property sector. However, where vendors are prepared to meet the market, sales and leases of industrial properties are being successfully negotiated.

Sales activity over the previous 2–3 years is indicative of the large capital investments being made in anticipation of a continuing strong resources market.

Specialised property – particularly directed towards the resource market and ancillary businesses including mine equipment sales and maintenance - are traded regularly and evidence sound returns on the capital outlay. However, the previous 2-3 years has evidenced a slowing in this market segment as in most sectors. The recent trend is anticipated to be reversed in the short to medium term as a consequence of anticipated and large capital input for mine exploration and coal handling infrastructure which is anticipated to result in increased output.

Construction costs for specialised building and infrastructure are onerous – but recognised in the prices achieved when such properties are traded.

The subject property, situated central to the broader Hunter Valley coalfields, is well suited to take advantage of demand for industrial developments and expansion in the coal industry.

Business outlook is confident in anticipation of improvement in the economy and the mining sector in the medium to long term, however, there is caution currently evident however, particularly as a consequence of recent labour shedding throughout the mining and related sectors.

HUNTER ECONOMIC INDICATORS

The following information comprises extracts from the Hunter Valley Research Foundation statistical database for the quarter to **September 2013.**

National Context

Rebalancing of the national economy continues: Australian, Chinese and global growth expectations have been downgraded recently by both the Reserve Bank of Australia (RBA) and OECD, offset somewhat domestically by the falling exchange rate. There are signs of pick-up in housing prices and residential approvals in response to sustained low interest rates; and business and consumer confidence lifted in the context of the Federal election. How well this will translate into business investment/activity and household consumption is so far unclear given uncertainties about employment and downside risk in global markets.

Business Investment and Commodities

Trading and profitability remain subdued, but businesses on balance expect improvement, especially over the 12-month horizon. Increased confidence may not translate quickly into business investment as the ‘hangover’ from the mining investment boom flows through the local economy. Planned capital expenditure levels are soft given continued excess capacity reported by local businesses, private investment in non residential construction remains below pre-Global Financial Crisis (GFC) levels, and uncertainties exist about the timing and impact of new Government policy settings.

Business Confidence

Hunter businesses overall reported some improvement in trading performance over the prior three months and expectations of further modest gains (*HVRF Business Survey*). This is a welcome uplift from the record low levels seen in the June quarter. The rebound in confidence among Hunter businesses is consistent with national survey results, reflecting anticipation of a change of Federal Government and expectations of policy initiatives to support increased business activity. It may also reflect a degree of over-reaction to the reported downturn in resource-related investment that has been the major driver of economic growth in the Hunter for the last few years. The improvement in business confidence is supported by a rise in consumer sentiment, continued historically low interest rates, and the positive impact on export-exposed sectors of a slowly-improving exchange rate. However, uncertainties about translation of the new Coalition Government’s policies into action and the overall pressures on governments for ‘fiscal consolidation’ may increase the lag between confidence and increased expenditure.

Hunter Economy in Transition – Changing Industry Structure

The impact of the recent slowdown, and some indication of potential growth areas, is demonstrated in the changing mix of employment. *Construction* appears to have borne the brunt of the contraction in regional capital investment, particularly in the absence of a prompt turnaround in residential and commercial construction. *Manufacturing* and *retail trade* continued recent trends of decline. At the same time, employment grew in *health care and social assistance*, *agriculture*, and *accommodation and food services*. Deloitte has identified health, tourism, agribusiness, international education, and gas extraction as having the greatest potential over the next 20 years for combining global growth and Australian advantage. The Hunter Region appears to be well placed to participate in economic expansion based on these industries, if realised, subject to successful negotiation of community concerns around expansion of the gas industry in areas that currently support agribusiness.

HUNTER ECONOMIC INDICATORS (Cont'd)

Household Consumption – Consumer confidence

Consumer confidence in the Hunter Region economy recovered in the Sep-2013 *HVRF Household Survey,* entering positive territory for the first time in two years. The HVRF indices of personal financial circumstances and expected expenditure over the next three months have now been positive for both the June and September quarters. Recent research using national data identified these two indices as having greater predictive power for household consumption and Gross Domestic Product (GDP) than 'the more amorphous and difficult task of judging economic conditions'. Consequently, these are positive signs for increased household consumption and a greater role for the service sectors in the regional economy. Growth in these sectors will be critical to the transition of the local and national economy to a post resource base. Nevertheless, reservations exist about the speed with which the rise in consumer confidence nationally will be realised in consumption spending, given rising anxiety about employment security.

Housing Investment – Residential Construction

Residential building approvals, Annualised to Aug-2013

	Houses & Other (no.)	Annual Change (no.)	Annual Change (value*)
Hunter:	3,438	+16.9%	+15.8%**
NSW:	39,325	+14.1%	+13.4%**

**Nominal, **including alterations and additions*

The evidence continues to mount of a slow turnaround in the sluggish residential construction market, both locally and nationally, in response to continued downward pressure on interest rates. The sector has traditionally been a key driver of economic recovery. Interest rate settings designed to accommodate the mining boom led to a prolonged period of moderate housing supply. Thus, there remains scope for further growth to address the cumulative shortfall. There are indications that the RBA is prepared to push interest rates even lower if recent downgrades in forecast economic growth are realised. The challenge for the housing sector is for increased spending to translate into additional construction rather than just price growth.

Regional Economic Outlook

The Regional economic outlook remains subdued relative to the expansionary phase evident through 2011, and there are mixed signs about the progress of transition to a post resource investment driven economy. The benefits of the (slowly) declining exchange rate on export-exposed sectors, and of historically low interest rates on household consumption, appear to be having some impact both nationally and locally. The Regional labour market has, to date, remained relatively robust in the face of slowly increasing unemployment levels, although the historically low level of job advertisements may indicate further softening. However, both business and consumer confidence have increased in the September quarter. This should translate into increases in both business investment and household consumption if caution about employment prospects and the risk of further slowdown in our major markets (particularly China) can be overcome.

UPPER HUNTER ECONOMIC INDICATORS

The following information comprises extracts from the Hunter Valley Research Foundation statistical database as at **September 2013.**

In Summary
Rebalancing of the national economy continues: Australian, Chinese and global growth expectations have been downgraded recently by both the Reserve Bank of Australia (RBA) and OECD, offset somewhat domestically by the falling exchange rate. There are signs of pick-up in housing prices and residential approvals in response to sustained low interest rates; and business and consumer confidence lifted in the context of the Federal election. How well this will translate into business investment/activity and household consumption is so far unclear given uncertainties about employment and downside risk in global markets.

Housing Investment
The Regional housing market is participating in the broader lift in dwelling construction nationally. The rental market locally has eased as demand driven by contract labour for the investment boom fell. The main risk is that of rising prices putting further pressure on housing affordability, particularly for first home buyers.

Business Investment & Conditions
Trading and profitability remain subdued, but businesses on balance expect improvement, especially over the 12-month horizon. Increased confidence may not translate quickly into business investment as the 'hangover' from the mining investment boom flows through the local economy. Planned capital expenditure levels are soft given continued excess capacity reported by local businesses, private investment in non residential construction remains below pre-Global Financial Crisis (GFC) levels, and uncertainties exist about the timing and impact of new Government policy settings.

Household Consumption
The household sector was also optimistic, with consumer confidence in the regional economy in positive territory in Sep-2013 for the first time in two years. Importantly, this is underpinned by two quarters of positive indices for personal financial circumstances and planned expenditure. The main risk factors are uncertainties about employment and longer-term potential for rising prices to depress demand as the dollar depreciates.

Housing Investment – Residential Construction
Res. building approvals, Annualised to May-2013

	Houses & Other (no.)	Annual Change (no.)	Annual Change (value*)
Hunter:	3,438	+16.9%	+15.8%**
NSW:	39,325	+14.1%	+13.4%**

**Nominal, **including alterations and additions*
The evidence continues to mount of a slow turnaround in the sluggish residential construction market, both locally and nationally, in response to continued downward pressure on interest rates. The sector has traditionally been a key driver of economic recovery. Interest rate settings designed to accommodate the mining boom led to a prolonged period of moderate housing supply. Thus, there remains scope for further growth to address the cumulative shortfall. There are indications that the RBA is prepared to push interest rates even lower if recent downgrades in forecast economic growth are realised. The challenge for the housing sector is for increased spending to translate into additional construction rather than just price growth.

Regional Economic Outlook
On balance, the outlook is one of cautious optimism for a less difficult transition to a post resource-investment driven regional economy than was expected. Business and consumer confidence have lifted, although downside risks suggest the transition will continue to be slow and uncertain through early 2014.

MINE INDUSTRY OVERVIEW

We have perused two (2) x reports completed by IBIS World – "Mining in Australia April 2014" and "Black Coal Mining in Australia February 2014", and summarized them as follows:

Ibis World is a commercial benchmarking and industry analyst company based in Melbourne, Australia.

Mining in Australia April 2014

Executive Summary
Australia has a large endowment of mineral and hydrocarbon reserves, which the Mining division extracts, processes and sells. These reserves are often high in quality and close to the surface of the earth, enabling Australia's Mining division to be price-competitive on global scale. The division is export-oriented, with exports expected to account for over 70.0% of revenue in 2013-14.

The division's performance depends on global trends in supply and demand for commodities. The division's expansion over the past decade is the result of structural shifts in demand as developing countries have industrialised. Prices have risen dramatically since the mid-2000s as emerging economies such as China have increased their use of commodities, especially those used in steel manufacture or energy generation. These conditions have created incentives for new investment in capacity that continues to come on-stream, leading to increases in output. In the past five years, division performance has been dominated by the investment and production phases of the boom. Record investment flows have driven growth in division employment, exploration and mining services, and related construction and support services industries. Division revenue is forecast to grow at a compound annual rate of 4.9% over the five years through 2013-14, to reach $257.5 billion. Revenue is expected to increase by 15.1% in 2013-14.

Increased investment in mining industries has occurred worldwide. Expansion in production capacity for a range of mineral commodities is expected to limit growth in prices in the next five years, as supply comes on-stream globally to meet demand. The volume of investment in the division is expected to flow through to growth in mining output. This will underpin compound annual growth in division revenue of 6.2%, to reach $348.3 billion in 2018-19. Commodity prices for major exports such as iron ore and coal are forecast to remain soft. In this operating environment, a focus on productivity is expected as the division competes to produce at the lowest possible cost globally. Industries across the division are shifting focus towards operating efficiently instead of expanding capacity.

Key External Drivers

GDP of mainland China
The economic performance of Australia's major trading partners (particularly China, Japan and other markets in the Asia-Pacific region) is a major opportunity for the Mining division due to its heavy reliance on exports. Exports are expected to account for 70.5% of revenue in 2013-14. The Chinese market is the most important for the division, and China's GDP is forecast to increase in 2013-14.

Total mass of exports by sea
The Mining division's output is transported to export markets by sea. Commodities dominate Australia's exports by volume. The total mass of exports by sea is used as a proxy for volume output of the division. Increases in the Mining division's output increase the volume of goods exported. In 2013- 14, the total mass of exports by sea is forecast to increase.

MINE INDUSTRY OVERVIEW (Cont'd)

World price of iron ore
Trends in iron ore prices have a large effect on division performance, reflecting the importance of iron ore sales to the Mining division. Global iron ore prices have fluctuated widely over the past five years. Falling prices are a threat to division growth. In 2013-14, the world price of iron ore is forecast to fall marginally.

World price of steaming coal
Trends in steaming coal prices have a significant effect on the Mining division's performance. Black coal mining is a considerable area of division activity, so trends in world prices affect the industry's performance. The world price of steaming coal is forecast to grow slowly in 2013-14.

US dollars per Australian dollar
The prices of most mineral commodities are expressed in US dollars. The relative values of the US dollar and Australian dollar therefore play an important role in determining the Australian dollar revenue earned by local producers. A weaker Australian dollar favours producers. In 2013-14, the Australian dollar is forecast to weaken.

Current Performance

In the past decade, developing countries such as China and India have industrialised rapidly. Their demand for steel inputs and energy has grown at a pace that was unforeseen by the global mining industry at the start of the 2000s. As demand surged far ahead of supply, commodity prices lifted during the mid-2000s. The Mining division committed to a wave of new projects that have been underway over the past five years, resulting in a surge of capital investment to meet global demand. This flow of investment has worked its way down the supply chain, through exploration and mining services industries, and is now flowing on to increases in output.

Division revenue has been volatile but increased overall in the past five years, at a compound annual rate of 4.9%. Rising prices have lifted revenue ahead of lagging production output responses. This has occurred despite a significant dip in prices during the global recession of 2009, which pulled down division performance in 2009-10 and lowered the overall five-year growth rate. The division also had a rocky year in 2012-13, as the global supply of commodities increased and prices softened. Strong growth is forecast for 2013-14, led by the Iron Ore Mining industry as prices improve and output lifts. Division revenue is expected to rise by 15.1% for the year, to $257.5 billion.

MINE INDUSTRY OVERVIEW (Cont'd)

Industry Outlook

In 2013-14, there are signs that the division is increasingly focusing on output. The number of new projects in the division's investment pipeline is slowing as existing projects are completed, bringing new capacity onstream. Industries involved in developing new projects, such as mineral exploration and mining support services, are being affected by weaker capital expenditure growth. Actual capital expenditure in the Mining division is forecast to peak in 2014-15.

As the division shifts focus to production, the interplay between global demand, the cost structure of Australian producers and the value of the Australian dollar will determine performance. Ongoing demand strength, especially in the Asia-Pacific region, is expected to support growth in global demand for commodities. A depreciation of the Australian dollar, combined with the high quality of division output, is forecast to keep Australian producers competitive on the global stage in the next five years. Division revenue is forecast to grow at a compound annual rate of 6.2% over the period to reach $348.3 billion in 2018-19.

The exception to these trends is expected to be the Oil and Gas Extraction industry. Worldwide demand for liquefied natural gas has grown rapidly and the industry is introducing new technologies for extraction. Gas projects are expected to grow to dominate capital expenditure in the division, with over $200.0 billion of projects forecast to be underway in the next five years.

Industry Performance

Despite a renewed focus on costs, profitability is expected to decline over the next five years due to lower commodity prices. Falls in profitability are expected to lead to continued consolidation, with the poorly performing thermal coal segment of the Black Coal Mining industry likely to move first.

The recent merger of resource giants Glencore and Xstrata is an example of the trend. Small miners that commenced operation in the past five years are also likely to become takeover targets, particularly if their operations are based on attractive deposits. Establishment and enterprise numbers in the Mining division are expected to grow more slowly than revenue over the five years through 2018-19 as consolidation occurs in some industries.

MINE INDUSTRY OVERVIEW (Cont'd)

Black Coal Mining in Australia February 2014

Executive Summary

In the past five years, the Black Coal Mining industry has come under pressure from global trends in coal demand and domestic production hurdles. Industry revenue is expected to decline at a compound annual rate of 5.1% over the five years through 2013-14, to $54.4 billion. A strong drop in world coal prices in 2012-13 contributed to this decline. In the past five years, increases in global supply and decreases in global demand have put downwards pressure on world coal prices, especially for steaming coal. Domestically, the industry has faced extreme weather events, industrial action and increased taxation. Australian producers have struggled with these market conditions.

Softening commodity prices signal that the industry is transitioning to cost management rather than expansion. Major players are fighting to achieve economies of scale through higher output to remain globally competitive at a lower price level. Buoyed by higher production, industry revenue is forecast to grow by 4.6% in 2013-14. Slightly higher world coking coal prices are also expected to favour producers. At the same time as some players are increasing volumes, others are reducing their presence in the industry. The number of mine stakes up for sale or changing hands is increasing and production has stopped at some higher cost mines in response to lower prices.

Higher production and improving global demand are forecast to lead the industry back to a growth path in the next five years. Revenue is forecast to grow at a compound annual rate of 6.4% to reach $74.1 billion in 2018-19. The main driver of growth will be improving global economic conditions. These are forecast to support demand for Australian coal exports for use in electricity generation and steel manufacturing. Ample coal supplies and strong competition from natural gas electricity generation will constrain coal prices despite improving demand. Profit is expected to grow more strongly than revenue as the industry ramps up production and shifts its emphasis away from building capacity.

Key External Drivers

World price of coking coal
The world price for coking coal has a direct effect on industry revenue. Coking coal, also known as metallurgical coal, is coal to be used in steel manufacturing. The Australian export price of high-quality metallurgical coal represents the world price as Australia accounts for about 60.0% of the world's coal exports. In 2013-14, the world price for coking coal is forecast to increase.

Days lost to industrial disputes
Industrial disputation leads to lost output and reduced productivity, both of which have a negative effect on industry performance. In 2013-14, the number of days lost to industrial disputes is forecast to decline, which is an opportunity for the industry to increase production.

10-year bond rate
Interest rates are important given the highly capital-intensive nature of the industry. Treasury bonds, which are backed by the Federal Government, pay investors periodic interest with the initial investment returned upon bond maturity. The yield is analogous to the current interest rate demanded by the market to hold this debt for 10 years. In 2013-14, the 10-year bond rate is forecast to increase.

MINE INDUSTRY OVERVIEW (Cont'd)

World price of steaming coal
Steaming coal, also known as thermal coal, is coal to be used for its heating value, typically in electricity generation. The Australian export price from Newcastle/Port Kembla represents the world price because Australia accounts for about 60.0% of the world's coal exports. The world price for thermal coal has a direct effect on industry revenue and is forecast to fall in 2013-14.

US dollars per Australian dollar
Black coal prices are set in US dollars and variations in the exchange rate are a threat to Australian dollar returns available to Australian producers. The exchange rate of the Australian dollar in terms of the US dollar is determined by the supply and demand for each currency. The major drivers of the supply and demand for currencies are interest rate differentials, GDP growth, inflation rates, current account positions, equity flows and expectations for each of these variables. In 2013-14, the Australian dollar is forecast to weaken.

Current Performance

The Black Coal Mining industry's performance is influenced by global commodity prices and domestic production volumes. Australia is a major exporter of black coal, catering to global demand for energy generation and inputs to steel production. Domestic production and investment decisions are made in response to price signals from the global market, as exports account for over 75.0% of industry revenue. These signals filter through the industry with a lagged effect, due to the presence of annual contracts for coal supply, widespread hedging practices and producers' ability to stockpile product when market conditions are unfavourable.

Over the five years through 2013-14, industry revenue is expected to contract at a compound annual rate of 5.1% to $54.4 billion. The industry's performance has been volatile over this period due to movements in the coal price and supply-side issues. At the same time, production capacity has increased year on year due to record levels of investment in the Mining division. Production overtook demand in 2012-13, resulting in a strong drop off in the world prices for steaming and coking coal. Consequently, industry revenue fell by 19.8%. With anticipated revenue growth of only 4.6% in 2013-14, the industry is not expected to regain the ground lost.

The industry's profit margins are also expected to have decreased over the past five years, due to lower prices, relatively fixed supply chain costs and the burden of the Queensland floods in 2011. Additional challenges to industry profitability include the introduction of carbon pricing under the Clean Energy Future Plan and the introduction of the Minerals Resource Rent Tax (MRRT), which specifically targeted mining profitability.

Production and disruption

One of the major determinants of industry performance is the annual change in domestic production volumes. Over the past five years, capacity has expanded but year-on-year production has been hit by volatile factors such as weather and industrial disputes. The largest external event for the industry in the past five years was the 2011 Queensland floods. Damage to mines and infrastructure reduced production and led to the closure of much of the state's coal mining activity. Mines closed and rail links from mines to ports were damaged. Coal miners including Xstrata, BHP Billiton, Rio Tinto and Macarthur had declared force majeure on their shipments before Christmas 2010. By the time of the January floods, little stock was left at ports to meet export commitments.

MINE INDUSTRY OVERVIEW (Cont'd)

Reduced coal output due to flooding pushed up world prices in early 2011, which effectively compensated operators for lost production. Not all operators suffered losses as a result of the floods, with some actually benefiting from higher prices given they were relatively unaffected and were able to either continue operating or restore output fairly quickly. Rising demand and the flooding in parts of Queensland also helped to establish a seller's market in coal contract negotiations, yielding higher prices. Coal contract negotiations have historically been conducted on an annual basis, with agreements such as those between producers and Japanese steelmakers serving as a global benchmark. Since 2010 the focus has progressively shifted to shorter terms, typically three months, thus increasing the volatility of world prices.

Prolonged industrial relations disputes have also hit production. For example, BHP Billiton Mitsubishi Alliance's production fell during 2011 as the company declared force majeure on coal exports from its seven mines in Queensland, citing ongoing industrial action by unions and wet weather. Production losses increased after discussions broke down in February and it was not until October 2012 that a new enterprise agreement for the company's mines was reached.

Industry Outlook
The industry is expected to focus on increasing production from existing assets in the next five years, as participants fight to achieve economies of scale with weak global prices. The push to increase output will benefit industry revenue, which is forecast to grow at a compound annual rate of 6.4% to $74.1 billion in 2018-19. Participants may struggle in markets like steaming coal, where oversupply is developing at a global level. Price forecasts for steaming coal are considerably more subdued than for coking coal, although both are on lower trajectories than they were over the past five years. Despite slow price growth, most Australian producers are expected to remain competitive in the global market as the local currency weakens against the US dollar. For example, strong revenue growth of 9.5% is expected in 2014-15, as prices temporarily rebound and the dollar weakens.

Global demand
Export markets are expected to remain the lifeblood of the industry in the next five years. While demand for steaming and coking coal is forecast to strengthen, Australia will face increased competition from other suppliers. Coal output and export capacity in other producing countries, such as Indonesia, Colombia and South Africa, will continue expanding, while rising natural gas production in the United States is will allow coal to be diverted from the local markets to export destinations.

Exports of steaming coal to key markets in the Asian region are expected to expand over the next few years as new coal-fired power stations come on-stream. Australian producers will remain competitive, even with global supply overhang, with competitive advantages in terms of transport costs, quality and a weakening currency. Demand from established major markets like Japan and China is forecast to remain strong, while India becomes increasingly attractive. Coal-fired power stations in these countries require imported coal due to the lack of local resources.

World steel production is expected to expand and lift demand for and exports of Australian coking coal, even though the pace of growth will slow. China's economic growth is expected to remain close to 7.0% per annum in the next five years, down from highs in the past decade. This still respectable rate of expansion is forecast to underpin demand for and production of steel, but not the peak commodity prices of the past decade. Steel demand and production in India is expected expand solidly, but growth will slow. Coking coal demand from China, India and other large steel producers – such as Brazil and Russia – is forecast to grow over the five years through 2018-19.

METHODS OF APPROACH

There are three methods of determining worth of industrial properties such as the subject and they are:

1. **Summation** of Land and Buildings

2. **Direct Comparison** with sales evidence

3. **Capitalisation** of Nett Returns

In the **Summation Method** the value of the improvements is added to the land value. In arriving at the worth of the improvements, some allowance will generally be made for the age of the structure and an allowance applied for depreciation. This allowance will tend to be arbitrary. The resulting valuation may not reflect unique factors such as ability or inability of a property to produce a steady yield over a period and is mainly used for insurance purposes.

The **Direct Comparison** method compares like properties. Authoritative writings identify this method as being a most sound basis of approach in determining value.

The main problem associated with this method is that of finding evidence of sales or properties which are directly comparable. Most properties will be different in some way and so some adjustments must be made.

The **Capitalisation Method** involves applying a rate of return (capitalisation rate) to the actual anticipated Nett Annual Rent Yield from a parcel of real estate. It is an extension of the 'Direct Comparison Method' in that capitalisation rates are derived from the sale of other income producing properties. The actual rate of capitalisation selected will depend on a number of factors. The most important of these is risk. Generally the higher the perceived risk the higher the capitalisation rate; consequently the lower the value ascribed.

BASIS OF VALUATION

The subject property provides three (3) x independently tilted allotments with improvements as outlined supra. The subject improvements have been purpose-constructed across the total consolidated site.

The improvements comprise two (2) x factory buildings and we understand that the scale of the improvements is specific to enable the existing tenant to carry out maintainence and repair of large and small scale mining plant and equipment.

The subject site has been cut, filled, retained and compacted to provide a near level building platform and curtilage. Further, we are advised that the compacted land has been tested to a load bearing capacity of 250 tonnes. We have not been provided with documentation attesting to the load bearing capacity of the subject land.

We are of the opinion that market value for the vacant land component of the subject property would fall in the range $60 – $80/m2 of consolidated site area.

In addition, we have been provided with plans of the existing and proposed improvements being constructed upon the subject land.

We are advised that the span and design of the improvements does not provide the capacity for affixed gantry and cranes and that lifting of mining plant and equipment within the building is by mobile cranes.

As instructed we have considered value on an "as if" completed basis and our valuation is subject to final inspection.

As mentioned supra, the lessee and lessor (at commencement of Lease) were related parties and the Lease may not represent an arm's length transaction. Indeed it would appear the passing rental is more in line with an economic rental – which is understandable cognisant of the specific use. Our valuation has been carried out subject to existing tenancy and continuation of existing use.

In considering our valuation we have adopted the following approaches:

Direct Comparison - The accepted method of determining the worth of property such as the subject is by direct comparison with available recent comparable sales evidence within the immediate and broader locality.

Due to a dearth of directly comparable sales evidence within the immediate and general surrounding locality we have considered sales evidence over a longer time frame and wider area.

Capitalisation of rental income **-** whereby the estimated net market rental is capitalised at a rate as adopted from analysis of yields evidenced from available recent sales evidence for commercial properties and property of similar scale and use to the subject. It is our opinion a capitalisation rate adopted for the subject facility would fall in the range **9.0% - 10.0%.**

In calculating value we have adopted a capitalisation rate of **9.50%** which we believe adequately reflects the age, condition, and the scale of the existing property as well as the current market conditions.

We are of the opinion that the passing rental is above a range indicative of market rental. For the purposes of this report we have considered an estimated market rental in our calculations of value.

As a consequence of the long term lease applicable and that there is a profit rental available, we have added the present value of the profit rental for the term certain remaining of the subject lease to our calculation of value adduced from capitalisation of our estimate of market rental.

BASIS OF VALUATION (Cont'd)

Summation - we have also utilised the Summation method to support our primary method of valuation whereby the land value is summated with the depreciated value of the existing and proposed improvements.

Comment

We have considered value on the basis this valuation **does not include** the value of any plant, equipment, fixtures, fittings, stock or goodwill associated with the business being conducted from the premises at the date of inspection.

Our valuation is provided exclusive of Goods and Services Tax – if applicable.

We have supported the capitalisation approach with the direct comparison approach and summation approach.

Due to a dearth of directly comparable sales evidence within the immediate and general surrounding locality we have considered sales evidence over a longer time frame and wider area.

The general locality continues to evidence demand for industrial services to service the coal industry. That demand is reduced to an extent below that which existed throughout the period 2000 – 2012, particularly so in the investigation/exploration related sectors. The extraction/operation aspects have continued to grow and as a consequence, maintenance. Tonnage of coal exports through the Port of Newcastle increased again through 2013, and are anticipated to increase in 2014. Further, rail capacity is increasing and provisioning for rail infrastructure is also expanding – specifically to facilitate servicing the resource sector and connectivity to the Port of Newcastle. It is anticipated that the Singleton/Muswellbrook area would become the central focus of the expansion of the coal industry investigation and development, not only in the upper Hunter Valley but also as a service area for the Liverpool Plains investigation area.

In undertaking our valuation, we are cognisant of the increasing demand impacts as are being emplaced upon the limited supply of industrial land in this locality. However, prices have remained steady over the previous five years. It is anticipated that the demand will increase over the medium to long term.

The subject facility is representative of the upper range of assets in the Hunter Valley Industrial market.

We are of the opinion that the subject property would evidence a premium over and above that rental as may be achievable for more standard capacity building structures and infrastructure. Such factors have been considered in our calculation of value and application of estimated current market rental.

MARKET RESEARCH

Vacant & Improved Industrial Land Muswellbrook

Address	Sale Date	Sale Price	Area	Comment
Lot 51 Wallarah Rd, Muswellbrook	15/06/2007	**$950,000**	9,512m^2	Large metal/brick clad industrial shed including offices in average condition. Steep access above road frontage. **Shows: $99.87/m^2 improved site area.**
No 1 Blakefield Rd, Muswellbrook	Apr 2010	**$980,000**	4,284m^2	Corner block; corrugated iron factory/warehouse with attached offices. Estimated building area 1,250m^2. Advised by selling agent sold subject to an existing lease to Thomas & Coffey Ltd; lease commenced May 2007 for 7 years + 3 year option; annual reviews to CPI; passing rent approximately $90,000 per annum (as advised). Busy road frontage. **Shows: $229/m^2 improved site area & 9.18% IY Passing Rent al Shows: $72/m^2 combined warehouse/office area.**
No 5 Strathmore Rd, Muswellbrook	Apr 2010	**$1,035,000**	4,714m^2	Storage facility – 4 x blocks of low bay metal clad storage sheds. Total 128 x independent self storage sheds – with single roller door access – sizes range from 9m^2 – 24m^2. We are advised by the marketing agent that the sheds were not fully let at date of sale. **Shows: $220/m^2 improved site area & advised 11.00% IY**
No 13 Enterprise Crescent & No 15 Enterprise Crescent, Muswellbrook	Sep 2010	**$1,900,000**	2,345m^2 2,343m^2 4,688m^2	Consolidated site – sold in one line. Comprises a modern factory/warehouse building with office accommodation; large gravel sealed hardstand area; consolidated site area 4,688m^2. **Shows: $405/m^2 improved site area.**
Lots 25, 34 & 37 Ayredale Rd, Muswellbrook	Oct 2010	**$3,250,000**	27,920m^2	Large consolidated site comprising a total area of 27,920m^2. Provides 3 x street frontages and dated industrial improvements in average condition. **Shows: $116/m^2 improved site area.**
7 Blakefield Road, Muswellbrook	Apr 2011	**$1,050,000**	4,292m^2	Metal deck industrial shed (450m^2) with attached brick & colourbond office area (80m^2). **Shows: $244/m^2 improved site area.**
31 Strathmore Road, Muswellbrook	Mar 2012	**$1,310,000**	9,183m^2	3 x colourbond clad industrial warehouse buildings.(two x high bay sheds – approx. 500m2 each and one x low bay shed approx. 315m2) in addition the property provides a open sided four bay carport. The property provides a gently undulating allotment and provides surplus gravel sealed hardstand area. **Shows: $143/m^2 improved site area.**

MARKET RESEARCH (Cont'd)

Address	Sale Date	Sale Price	Area	Comment
No 2 Wallarah Rd, Muswellbrook	Oct 2007	**$215,000**	4,747m^2	Large corner site former Boral depot sold as vacant land to owner occupier looking to develop for expansion of business interests. **Shows: $45.29/m^2 site area.**
No 4 Industrial Cl, Muswellbrook	20/06/2007	**$105,000**	2,264m^2	Vacant industrial land. **Shows: $46.37/m^2 site area.**
No 16 Strathmore Road, Muswellbrook	Dec 2010	**$173,000**	4,755m^2	Vacant industrial land. **Shows: $36.38/m^2 site area.**
No 10-12 Wallarah Road, Muswellbrook	Sep 2010	**$292,500**	8,487m^2	Vacant industrial land – sold in one line. **Shows: $34.46/m^2 site area.**
Glen Munroe Road, Muswellbrook	Jul 2011	**$220,000**	4,898m^2	Vacant industrial land. **Shows: $45/m^2 site area.**
28 Glen Munroe Road, Muswellbrook	Nov 2011	**$180,000**	5,029m^2	Vacant industrial land. **Shows: $35/m^2 site area.**
Lot 24 Ayredale Road, Muswellbrook	May 2011	**$792,000**	4,640m^2	Colourbond clad industrial shed. **Shows: $155/m^2 site area.**
7 Blakefield Road, Muswellbrook	Apr 2011	**$1,050,000**	4,292m^2	Metal deck industrial shed (450m^2) with attached brick & colourbond office area (80m^2). **Shows: $244/m^2 improved site area.**

Modern Muswellbrook Industrial Park – Vacant Land

Address	Sale Date	Sale Price	Area	Comment – Dollar Rate per m^2 as Vacant Land
Lot 28, 10 Enterprise Cres, Muswellbrook	Feb 2007 Jun 2013	**$135,000** **$165,000**	2,352m^2	**Shows: $57.40/m^2** **Shows: $70.15/m^2**
Lot 25, 16 Enterprise Cres, Muswellbrook Lot 25, 16 Enterprise Cres, Muswellbrook	May 2007 Nov 2010	**$150,000** **$160,000**	2,352m^2	**Shows: $63.78/m^2** **Shows: $68.03/m^2**
Lot 27, 12 Enterprise Cres, Muswellbrook	Jul 2008 Feb 2013	**$152,000** **$150,000**	2,352m^2	**Shows: $64.63/m^2** **Shows: $63.77/m^2**
Lots 3-4, 9-11 Enterprise Cres, Muswellbrook	Sep 2008 Mar 2011	**$304,000** **$330,000**	4,682m^2	**Shows: $64.92m^2** **Shows: $70.48/m^2**
Lot 23, 24 Enterprise Cres, Muswellbrook	Aug 2010	**$264,000**	4,649m^2	**Shows: $56.78/m^2**
Lot 24, 18 Enterprise Cres, Muswellbrook	Aug 2010	**$275,000**	5,441m^2	**Shows: $50.54/m^2**
Lot 8,19 Enterprise Cres, Muswellbrook	Sep 2010	**$165,000**	2,358m^2	**Shows: $69.97/m^2**
Lot 15, 21 Enterprise Cres, Muswellbrook	Sep 2010	**$366,000**	6,015m^2	**Shows: $60.84/m^2**
Lot 22, 28 Enterprise Cres, Muswellbrook	Jun 2011	**$200,000**	4,231m^2	**Shows: $47.27/m^2**
Lot 20, 38 Enterprise Cres, Muswellbrook	Jul 2012	**$250,000**	6,008m^2	**Shows: $41.61/m^2**
No 39 Enterprise Cres, Muswellbrook	Apr 2013	**$210,000**	6,059m^2	**Shows: $34.65/m^2**
Lot 21, 34 Enterprise Cres, Muswellbrook	Mar 2013	**$260,000**	6,008m^2	**Shows: $43.27/m^2**

The sales evidence listed in the table above are within a modern industrial estate located approximately 1 kilometre west of the established older industrial estate south of Muswellbrook. We draw attention to the fact that the majority of sales were achieved in 2007-2008 and evidence dollar rates per metre squared of site area of vacant industrial land within the range $55-$70/m^2 of total site area.

There is only limited available vacant land – the majority of land available is sloping and requires significant site works to develop.

MARKET RESEARCH (Cont'd)

Dated Improved Properties – Mount Thorley

Address	Sale Date	Sale Price	Comments
Lot 150 – 81 Mount Thorley Road, Mount Thorley	Dec 2005	**$6,500,000**	Site areas – Lot 150 – 19,190m^2 No 81 25,900m^2 Total area 45,090m^2 Large gravel and concrete sealed site. The site slopes down severely to the rear and provides transpiration area towards its rear fence. Industrial improvements include: Building 1 – metal clad and brick warehouse and office. Building 2 – Large high bay – "L" shaped warehouse and office building. Building areas include 2x storey offices totalling 797m2; 6,891m^2 of workshops and other building improvements providing 7,688m^2 of total improvements. **Shows: $144/m^2 total site area or $845.47/m2 of improvements.**
Lot 150 – 81 Mount Thorley Road, Mount Thorley	**(Resale)** May 2010	**$9,000,000**	Site areas – Lot 150 – 19,190m^2 No 81 25,900m^2 Total area 45,090m^2 Large gravel and concrete sealed site. The site slopes down severely to the rear and provides transpiration area towards its rear fence. Industrial improvements include: Building 1 – metal clad and brick warehouse and office. Building 2 – Large high bay – "L" shaped warehouse and office building. Building areas include 2x storey offices totalling 797m2; 6,891m^2 of workshops and other building improvements providing 7,688m^2 of total improvements. **Shows: $199.60/m^2 total site area or $1,170.65/m^2 of improvements.**
Lot 61 Hedley Road, Mount Thorley	Aug 2010	**$480,000**	**SUBJECT LAND** - site area 10,600m^2. Shows $45.28/m^2 site area as vacant land.
Lot 7-9 O'Hara Place, Mount Thorley	Jun 2010	**$2,020,000**	Consolidated vacant land – sold in one line. Lot 7 – 23,830m^2 Lot 8 – 9,457m^2 Lot 9 – 19,992m^2 Total Area – 53,277m^2 **Shows: $37.91/m^2 consolidated site area**.

Vacant Properties - Broader Hunter Valley

Address	Sale Price	Sale Date	Comments
No 2 Magpie Street, McDougall's Hill	$975,000	Mar 2010	Metal deck shed with attached brick offices. 5,882m^2 allotment. **Shows: $165/m^2 of improved site area.**
No 41 Magpie Street, McDougall's Hill	$253,000	Mar 2010	Vacant land gently sloping above road frontage. 3,502m^2 allotment. **Shows: $72/m^2 of site area as vacant land.**
No 5 Ellsmere Ave, McDougall's Hill	$451,440	Jul 2010	Vacant gently sloping land. 5,400m^2 allotment. **Shows: $84/m^2 of site area as vacant land.**
Lot 10 Kannar Road, Mount Thorley	$630,000	Aug 2010	Vacant industrial land – site area 19,920m^2. **Shows: $31.63/m^2 total site area.**
No 1 Rosedale Close, McDougall's Hill	$232,000	Nov 2011	Vacant allotment. 3,148m^2 allotment. **Shows: $74/m^2 of site area as vacant land.**

MARKET RESEARCH (Cont'd)

Improved Industrial Properties - Broader Hunter Valley

Address	Sale Date	Sale Price	Land Area	Comments
16 Callaghan Street, Hexham	Jul 2008	**$6,000,000**	29,840m^2	Large specialized industrial facility comprising 10,665.3m^2 of warehouse; 250m^2 of office; 2,305.3m^2 of cold storage warehouse, 154.1m^2 of cold store offices. Site area 2.984ha. **Shows: 12.1% IY on estimated rental for highly specialized facility.**
16 Callaghan Street, Hexham	Mar 2014	**$15,842,063**	29,840m^2	Freestanding industrial warehouse/distribution centre of 10,854m2 with 9m clearance on a 29,840m2 total site area. Warehouse facility provides cool room and freezer and small AC office located at the front of the building with concrete apron. Purpose-built facility for cool storage of large-scale fruit and vegetable – 15-20yr old facility. **Shows: $531/$m^2$ of improved site area, $1,459/m2 of lettable area.**
2 Balbu Close, Beresfield	Sep 2009	**$5,100,000**	9,047m^2	Industrial building comprising warehouse 3,510m^2 and offices 174m^2. Proposed 10 year lease plus 2x5 year options to Target Australia from completion of construction anticipated Feb 2010. Initial rental $431,208 p.a. net + GST. **Shows: $563/$m^2$ of improved site area or 8.45% IY.**
27 Old Punt Road, Tomago	Sep 2009	**$3,750,000**	10,110m^2	Modern development with workshops comprising 2,970m^2 in adjoining buildings and 2 storey office block of 600m^2. 7+5 year lease to Razor Industries commenced Feb 2008. Passing rental $313,837 p.a. net + GST. **Shows: $370/$m^2$ improved site area or 8.37% IY.**
9B Huntingdale Drive, Thornton (65 Thornton Rd. Thornton)	Sep 2009	**$3,975,000**	5,700m^2	Industrial site developed over 3 stages (stage 2 completed in Sep 2009); showroom/ offices of 1,365m^2 and warehouse area of 645m^2 and small mezzanine. Proposes 7+7 year lease to McDonald Jones Homes from completion of construction of stage 2 with initial rental to be $364,400 p.a. net + GST. **Shows: $697.36/$m^2$ improved site area or 9.16% IY.**
19 -21 Nelson Road, Cardiff	Feb 2010 (exch)	**$5,000,000**	34,947m^2	Large dated purposes built industrial facility former brewery comprising 10,000m^2 of warehouse and office (including 1,560m^2 of breezeway and loading dock.; 3,000m^2 of awning; Subject to two leases: 10yr lease to Toll Transport com. 5/07 for 3,750m^2 W'house, 360m^2 office & 6,500m^2 h'stand – passing rental $286,624/ann net; 5yr lease to Lifestyle Solutions com. 10/07 for 685m^2 office – passing rental $64,896/ann net. Est Market Rental = $650,000/ann shows. Appears to be good buying. Specialised improvements. **Reversionary Yield est 11%**
43 Munibung Road, Cardiff	Feb 2010	**$5,497,436**	27,950m^2	Large industrial warehouse leased to Bluescope Steel for $536,000/annum net. Dated improvements comprising 6,525m^2 of building including office. Appears to be good buying. **Shows 9.75% IY**
95 Mustang Drive Rutherford	Nov 2011	**$5,742,000**	4.51ha	Vacant industrial zoned land in the new Anambah Industrial Estate located on the northern side of the New England Highway. Near regular, near level allotment with two street frontages, provides access off the cul de sac Mustang Drive and benefits from frontage to the New England Highway providing exposure to passing traffic. Superior location. Shows: $127/m2 of vacant site area.
24 Nelson Street, Cardiff	Jun 2012	**$4,000,000**	4.04ha	Industrial facility utilised previously as brewery and now utilised as a warehouse and distribution centre with attached offices, car parking and hardstand areas. Zoned 4(3) Industrial (Urban Services). Provides a total lettable area of 8,051m2 on a site area of 40,400m2. Rental of $371,428 per annum net. Shows: $99/m2 of improved site area, $496/m2 of building area, 9.3% yield.

MARKET RESEARCH (Cont'd)

Improved Industrial Properties – Broader Hunter Valley

Address	Sale Date	Sale Amount	Land Area	Comments
9 Pennant Street, Cardiff	Nov 2012	**$5,250,000**	3.92ha	Freestanding industrial 15,200m2 warehouse currently utilised as a distribution facility on a 39,220m2 site area. Zoned 4(3) Industrial (Urban Services) and in part Zoned 5 (Infrastructure). Sold as a going concern, with the 3 x tenancy areas occupied by Toll Transport Pty Limited at $1,065,000 per annum net. **Shows: $134/m^2 of improved site area, $345/m2 of building area, 20.28% yield.**
51 Pendlebury Rd, Cardiff	May 2013	**$5,900,000**	7,622m^2	Dated 1960's brick and sawtooth style roofed industrial building of approximately 3,000m2 on a 7,622m2 allotment. **Shows: $774/m^2 of improved site area.**
31 Creek Road Maryland	Nov 2013	**$9,000,000**	10.2Ha	Workshop of 9,494m2 with concrete panel with metal cladding above providing two overhead cranes and heavy vehicle access to the workshop and perimeter of the site. Two level brick administration building providing 1,190m2 of partitioned and open plan offices, boardrooms, amenities. A separate single level brick amenities building of 495m2 is adjacent provides lunchroom, change room and amenities. Total lettable area of 11,179m2. Leased at $825,000 net. **Shows: $88/m2 of improved site area, $805/m2 total lettable area, 9.2% initial yield.**
3-9 Babilla Close, Beresfield	Dec 2013	**$4,466,651**	1.30ha	Irregular shaped 13,010m2 allotment providing high exposure to passing traffic in a popular industrial park at Beresfield. Provides 1,026m2 workshop with 7 through bays with roller door access suitable for truck servicing. Storage/spare parts of 580m2 includes ground floor plus mezzanine area. 708m2 of quality office space and showroom over two levels. Fully enclosed wash bay of 254m2. Total lettable area of 2,568m2. Sold in 2010 for $4,200,000 to Iveco Trucks. **Shows: $344/m^2 of improved site area, $1,739/m2 of lettable area.**
25 Enterprise Drive, Beresfield	Jun 2013	**$4,560,000**	11,200	Freestanding industrial building of pre-cast concrete panel construction, featuring warehousing of 4,655m^2, two levels of offices of 375m^2 and amenities. Total lettable area 5,030m2 + hardstand. Located on a large 11,200m^2 site close to the entry of the Holmwood Industrial Park with excellent heavy vehicle drive through access. Lease term 5 years + 5 year option, at $435,000 pa + outgoings + GST. **Shows: $407/m2 improved site area or 9.54% IY.**
115-117 Stenhouse Dr, Cameron Park	May 2014	**$5,485,000**	4,376	Modern industrial warehouse building including high quality office fitout, showroom and concrete panel workshop totalling 4,376m2 of lettable area on a 6,622m2 site. Gross building areas – admin 815m2; mezzanine level 1,015m2; workshop/warehouse 2,368m2; cafe 178m2; totalling 4,376m2. Currently marketed for auction. **Shows: $109.7/m2 total lettable area, $72.4/m2 improved site area.**

The above improved sales indicate the analysed rates applicable to large scale industrial properties of which we have inspected. The analysed rates vary and are influenced by contributing factors including: location; size; age; condition; specialisation; access and services.

MARKET RESEARCH (Cont'd)

Rental Evidence

The following rental evidence is indicative of those rentals considered in adducing a market rental for the subject property.

Address	Lease Commence Date	Passing Rental Net p.a.	NLA (m2)	Comments
9 Pennant Street, Cardiff	Jun 2008 Jul 2008 Mar 2010	**$484,393.97** **$502,103.22** **$78,822.56** **$1,065,310**	15,200	3 tenancy areas comprising of 2 x warehouses & 1 x administration building. Total lettable area of 15,200m2 on a 39,220m2 site. Currently tenanted by Toll Transport Pty Limited as a distribution facility. Leased for $1,065,310 per annum net with all three leases to expire in June 2014. Sold for $5,250,000 showing 20.28% IY. **Shows: $70/m2 of total net lettable area.**
24 Nelson Street, Wallsend	Oct 2009	**$371,428** as at Oct 2012	8,051	Industrial facility utilised previously as brewery and now utilised as a warehouse and distribution centre with attached offices, car parking and hardstand areas. Provides a total lettable area of 8,051m2. Rental of $371,428 commence Oct 2009 on a 3 year lease term with nil options. Sold for $4,000,000 showing 9.28% IY. **Shows: $46/m2 of total net lettable area.**
25 Enterprise Drive, Beresfield	Nov 2012	**$435,000**	5,030	Concrete panel with attached offices over two levels with a total net lettable area of 5,030m2 on an 11,000m2 site. Currently leased for $435,000 commencing Nov 2012 with a 5 year lease period plus 2 x 5 year options. Annual CPI increases with market review at option. **Shows: $86.5/m2 of total net lettable area.**
Unit 2, 16 Callaghan Street, Hexham	Jun 2013	**$913,878**	10,588	High bay modern industrial warehouse with attached offices, loading docks and hardstand areas with a total lettable area of 10,588m2. Leased for $913,877.80 commencing Jun 2013 on a 10 year lease term with 2 x 5 options. Annual CPI increases with market review at option. **Shows: $86.3/m2 of total net lettable area.**
20 Shipley Drive, Rutherford	April 2013	**$200,000**	1,944	2 x metal clad industrial buildings providing 1032m2 of workshop space; 1 x 10t & 2 x 10t overhead cranes; 456m2 of attached offices, joined by quality constructed breezeway of 432m2 between two buildings with 2,610m2 of hardstand and car parking areas. Provides a total lettable area of 1,488m2 on a site area of 7,720m2. Rental of $200,000 commence April 2013; 5 year lease term with 1 x 5 year option. **Shows: $134/m2 of total net lettable area (excludes breezeway area).**
60 Orlando Road Lambton	Mar 2013	**$226,000**	3,093	Two tenancy areas within a dated 1960's style workshop/warehouse with a total lettable area of 3,093m2 on a site area of 5,108m2. Located within suburban fringe area of Newcastle CBD. Leased for a total of $226,000 to CSR commencing March 2013 on a 5 + 5 year lease, and Hancock Sheet Metal commence Sep 2013 on a 3 + 3 year lease. **Shows: $73/m2 of total lettable area.**
52 Gardiner Road Rutherford	Jun 2013	**$165,000**	2,370	Newly constructed workshop and administration building on 11,000m2 battleaxe shaped allotment within the Rutherford Industrial Estate. Workshop of 2,020m2 provides 2 x 10t cranes (designed for 4x 10t cranes) with 4 x 6m wide roller doors providing 4.8m clearance. Ducted air conditioned office area of 340m2 adjoins the workshop. Approximately 2,000m2 of concrete hardstand provides ample car parking and truck access. Leased at $165,000 commencing Jun 2013 on a 3 year lease with 2 x 5 year option periods, with increases annually to CPI. Incentives of 3 months' rent free provide an equivalent rental amount of $150,000 p.a. over the 3 year term certain. **Shows: $70/m2 of lettable area and $63/m2 with 3 month rent free period amortised over 3 year term certain.**
73 Enterprise Drive Beresfield	Dec 2010	**$331,104** As at Dec 2012	2,442	Industrial warehouse utilised as an engineering facility on a 10,040m2 site area within a popular Holmwood Industrial Park at Beresfield. 1,887m2 workshop facility providing a 20t and 5t crane, detached wash bay of 165m2 and annexed storage warehouse of 106m2. Provides adjoining two levels of offices of 287m2 comprising 6 partitioned offices, 3 x open plan areas, workshop office area, boardroom, kitchenette and amenities. Total lettable area of 2,442m2. Leased at $331,104 commencing Dec 2010 on a 5 year lease term with CPI annual increases. **Shows: $136/m2 of lettable area.**
34 Huntingdale Dr, Thornton	Oct 2013	**$230,000**	2,000	Industrial facility constructed in 2004 within Thornton Business Park. Total building area of 2,000m2 on a 3,714m2 site. Leased to Delnorth Pty Ltd at $230,000pa net on a new 7 year lease with 7 year option. **Shows: $115/m2 total lettable area.**

We have analysed the above rental evidence to a dollar rate per metre squared of lettable building area.

MARKET RESEARCH (Cont'd)

Rental Evidence

Address	Lease Commence Date	Passing Rental Net p.a.	NLA (m2)	Comments
25 Enterprise Drive, Beresfield	Nov 2012	**$435,000**	5,030	Freestanding industrial building of pre-cast concrete panel construction, featuring warehousing of 4,655m^2, two levels of offices of 375m^2 and amenities. Total lettable area 5,030m2 + hardstand. Located on a large 11,200m^2 site close to the entry of the Holmwood Industrial Park with excellent heavy vehicle drive through access. Lease term 5 years + 5 year option, at $435,000 pa + outgoings + GST. **Shows: $86.50/m2 total lettable area, $38.80 improved site area.**
27 Kalinya Close, Cameron Park	Sep 2008	**$431,780**	2,952	Industrial warehouse facility providing 1 x 10 tonne crane and 1 x 25 tonne overhead crane. Total floor area 2,952m2 on an 18,470m2 site. 10year lease to Walter Mining expiring Sep 2018 with market review at Sep 2013 and 2 x 5 year option periods. Large yard area with drive-thru workshop, concrete hardstand and large on site storage area. Currently marketed for sale for $4,500,000. **Shows: $146/m2 total lettable area, $23.50 improved site area.**
115-117 Stenhouse Dr, Cameron Park	2014	**$480,000**	4,376	Modern industrial warehouse building including high quality office fitout, showroom and concrete panel workshop totalling 4,376m2 of lettable area on a 6,622m2 site. Gross building areas – admin 815m2; mezzanine level 1,015m2; workshop/warehouse 2,368m2; cafe 178m2; totalling 4,376m2. Currently marketed for auction. **Shows: $109.7/m2 total lettable area, $72.4/m2 improved site area.**

The subject property provides high bay specialised construction for the particular use. If analyzing an applicable rent on a $ % of ground floor area, it is appropriate to also consider the available height for works area applicable.

VALUATION CALCULATIONS

BY CAPITALISATION – SUBJECT TO EXISTING TENANCIES – ADD BACK OF PRESENT VALUE OF ANTICIPATED PROFIT RENTAL

After analysis of current market rental evidence we have estimated net current market rent for the subject property as $946,270 per annum excluding Goods and Services Tax.

For the purposes of our calculation of Profit Rental we have anticipated market growth for industrial rents would evidence 3.50% per annum and we have adopted as much in our calculations. We have grown the passing rent by 3.50% per annum in accordance with the existing lease document.

That is – for the purposes of this calculation we have anticipated that the market and the subject rent would be aligned in respect to growth over the remaining terms certain of the lease.

We have then calculated the Present Value of the difference (or profit rent) for the remaining term certain of the lease @ a discount of 7.0%. We have assumed a continuation of existing use for the purposes of this report.

The present value of the profit rental is added to the value as evidenced by a capitalisation of the estimated market rental in order to evidence Market Value of the subject property – subject to existing tenancy.

VALUATION CALCULATIONS (Cont'd)

Calculation of Profit Rental

					Profit Rental	Profit Rental Deferred
2013/14 Rental - passing	$1,100,000.00	3.50%		$1,138,500.00		
Estimated Market rental				$946,270.00		
Profit rental 2014/15					$192,230	
Present Value	6	months	@	7.00%		$94,732
2014/15 rental - lease	$1,138,500.00	3.50%		$1,178,347.50		
Estimated Market rental	$946,270.00	3.50%		$979,389.45		
Profit rental				$198,958.05		
Present Value	12	months	@	7.00%	$192,733	
Deferred	6	months	@	7.00%		$186,123
2015/16 rental - lease	$1,178,347.50	3.50%		$1,219,589.66		
Estimated Market rental	$979,389.45	3.50%		$1,013,668.08		
Profit rental				$205,921.58		
Present Value	12	months	@	7.00%	$199,479	
Deferred	18	months	@	7.00%		$179,650
2016/17 rental - lease	$1,219,589.66	3.50%		$1,262,275.30		
Estimated Market rental	$1,013,668.08	3.50%		$1,049,146.46		
Profit rental				$213,128.84		
Present Value	12	months	@	7.00%	$206,460	
Deferred	30	months	@	7.00%		$173,403
2017/18 rental - lease	$1,262,275.30	3.50%		$1,306,454.94		
Estimated Market rental	$1,049,146.46	3.50%		$1,085,866.59		
Profit rental				$220,588.35		
Present Value	12	months	@	7.00%	$213,686	
Deferred	42	months	@	7.00%		$167,372
2018/19 rental - lease	$1,306,454.94	3.50%		$1,352,180.86		
Estimated Market rental	$1,085,866.59	3.50%		$1,123,871.92		
Profit rental				$228,308.94		
Present Value	12	months	@	7.00%	$221,165	
Deferred	54	months	@	7.00%		$161,552
2019/20 rental - lease	$1,352,180.86	3.50%		$1,399,507.19		
Estimated Market rental	$1,123,871.92	3.50%		$1,163,207.44		
Profit rental				$236,299.75		
Present Value	12	months	@	7.00%	$228,906	
Deferred	66	months	@	7.00%		$155,934
2020/21 rental - lease	$1,399,507.19	3.50%		$1,448,489.94		
Estimated Market rental	$1,163,207.44	3.50%		$1,203,919.70		
Profit rental				$244,570.24		
Present Value	12	months	@	7.00%	$236,918	
Deferred	78	months	@	7.00%		$150,511
2021/22 rental - lease	$1,448,489.94	3.50%		$1,499,187.09		
Estimated Market rental	$1,203,919.70	3.50%		$1,246,056.89		
Profit rental				$253,130.20		
Present Value	12	months	@	7.00%	$245,210	
Deferred	90	months	@	7.00%		$145,277
2022/23 rental - lease	$1,448,489.94	3.50%		149918708.86%		
Estimated Market rental	$1,203,919.70	3.50%		124605688.74%		
Profit rental				25313020.12%		
Present Value	12	months	@	7.00%	$245,210	
Deferred	102	months	@	7.00%		$135,483

VALUATION CALCULATIONS (Cont'd)

Calculation of Profit Rental

					Profit Rental	Profit Rental Deferred
2023/24 rental - lease	$1,499,187.09	3.50%		$1,551,658.64		
Estimated Market rental	$1,246,056.89	3.50%		$1,289,668.88		
Profit rental				$261,989.76		
Present Value	12	months	@	7.00%	$253,792	
Deferred	114	months	@	7.00%		$130,771
2024/25 rental - lease	$1,551,658.64	3.50%		$1,605,966.69		
Estimated Market rental	$1,289,668.88	3.50%		$1,334,807.29		
Profit rental				$271,159.40		
Present Value	12	months	@	7.00%	$262,675	
Deferred	126	months	@	7.00%		$126,223
2026/27 rental - lease	$1,605,966.69	3.50%		$1,662,175.52		
Estimated Market rental	$1,334,807.29	3.50%		$1,381,525.54		
Profit rental				$280,649.98		
Present Value	12	months	@	7.00%	$271,869	
Deferred	138	months	@	7.00%		$121,834
2027/28 rental - lease	$1,662,175.52	3.50%		$1,720,351.67		
Estimated Market rental	$1,381,525.54	3.50%		$1,429,878.94		
Profit rental				$290,472.73		
Present Value	12	months	@	7.00%	$281,384	
Deferred	150	months	@	7.00%		$117,597
				Present Value of Total Profit Rental		**$1,928,865**

VALUATION CALCULATIONS (Cont'd)

1. Capitalisation Approach – estimated net market rental - excluding Goods and Services Tax

Improvements	Floor Area - m2	Rent @ $/m2	Total Net Rent
Factory A (ex Office/Amenities)	6426	100	$642,600
Factory B	1733	110	$190,630
Offices /Amenities	628	180	$113,040
			$946,270
Capitalised @	9.50%		$9,960,736
Add PV of profit rental			$1,928,865
			$11,889,601

2. Summation Approach

Improvements	Floor Area - m2	$/m2 to Replace	Total Replacement Cost	Depreciation Rate	Depreciation	Depreciated Value
Factory A	7054	$950	$6,701,300	5%	$335,065	$6,366,235
Factory B	1733	$950	$1,646,350	5%	$82,318	$1,564,033
Offices /Amenities	628	$1,500	$942,000	5%	$47,100	$894,900
			$9,289,650			
Add - Land Area						
Land	14,021	$70				$981,470
					Total	**$9,806,638**

The above calculations evidence value in **the range $9,800,000 - $11,900,000** and for the purposes of this report we have adopted a valuation of **$11,900,000**. A contributing factor to the wide spread in value is the profit rental. For the purposes of this report we have adopted **$11,900,000** as Market Value – subject to existing tenancy – continuation of existing use.

The adopted Valuation figure shows: **$848.73** per metre squared of improved site area.

We draw particular attention to the fact – a consideration of value on a vacant possession basis would be represented in the range **$9,800,000 - $10,000,000**.

INSURANCE VALUE

3. Insurance Calculations

Improvements	Floor Area - M2	$/m2 to Replace	Total Replacement Cost
Factory A	7054	$950	$6,701,300
Factory B	1733	$950	$1,646,350
Offices /Amenities	628	$1,500	$942,000
			$9,289,650
Replacement cost			$9,289,650
Add escalation in design @	11	months	
Per month	0.5%	5.50%	$510,931
			$9,800,581
Professional Fees		11.50%	$1,127,067
			$10,927,648
Demo and removal of debris			
9415	m2	$ 75.00	$706,125
			$11,633,773
Escalation in lapse period @		12	
	0.5%	6.00%	$698,026
			$12,331,799
		Adopt Say	**$12,350,000**

Note - our References for building cost estimates and escalation rates used to determine these Values have been taken from Rawlinson’s Australian Construction Handbook 2014.

VALUATION CERTIFICATE

We are of the opinion having regard to the **Fee Simple in Possession** a **Current Market Value** of **Lots 26, 27 & 28 in Deposited Plan 260504** – **NO 39-43 THOMAS MITCHELL ROAD, MUSWELLBROOK NSW 2333 –** assigned as “AS IF COMPLETED” subject to existing tenancy for Asset Assessment Purposes - as at **17th April 2014** would be:

ELEVEN MILLION NINE HUNDRED THOUSAND DOLLARS ($11,900,000)

Our valuation is provided excluding Goods and Services Tax – if applicable.

INSURANCE VALUATION

Based on the current costings supplied by **Rawlinson's Australian Construction Handbook 2014** we have assessed the current **Replacement and Reinstatement Value**, new for old, for INSURANCE PURPOSES to be:

TWELVE MILLION THREE HUNDRED AND FIFTY THOUSAND DOLLARS ($12,350,000)

This figure includes allowances for demolition, site clearance, professional fees and statutory charges.

TEW PROPERTY CONSULTANTS

SM POWELL AAPI	**RW TEW AAPI MRICS**
Registered Valuer VAL010627	**Registered Valuer 2835 (Without Limitation)**

DATED THIS THE 17TH DAY OF APRIL 2014

Tew Property Consultants Terms and Conditions

IT IS AGREED AS FOLLOWS:

1. DEFINITIONS

'Confidential Information' means information that:

(a) Is by its nature confidential;

(b) Is designated by Us as confidential

(c) You know or ought to know is confidential;

(d) and includes, without limitation:

(i) Information comprised in or relating to any of Our intellectual property in the Services or any reports or certificates provided as part of the Services; and

(ii) The Quotation annexed hereto.

'Currency Date' means, in relation to any valuation or consultancy report, the date as at which our professional opinion is stated to be current.

'Fee' means the amount agreed to be paid for the Services as set out in the Quotation.

"Draft" means, in relation to any valuation or consultancy report or letter of advice, a preliminary written form which is not complete and may be subject to revision.

'Parties' mean You or Us as the context dictates.

'Quotation' means the written quote provided by Us in relation to the Services.

'Services' means the valuation or consultancy services provided pursuant to these Terms and Conditions and the Quotation, and includes and documents, reports or certificates provided by Us in connection with the services.

'We', 'Us', 'Our', means Tew Property Consultants (ABN 93 257 871 670).

'You', 'Your' means the entity engaging Us to perform the Services as set out in the Quotation

2. PERFORMANCE OF SERVICES

2.1 We will provide the Services in accordance with:

(a) The Terms and Conditions contained herein; and

(b) The required provisions of the current Australian Property Institute Professional Practice Standard.

3. CONDITIONS OF THE PROPERTY

3.1. In undertaking the Services We will have regard to the apparent state of repair, condition and environmental factors in relation to the property based upon a visual inspection, but We will not (and are not qualified to) carry out structural, geotechnical or environmental survey. We will not inspect those parts of the property that are unexposed or inaccessible.

3.2. We will assume that there is no timber infestation, asbestos or any other defect (unless advised otherwise) and that the property is compliant with all relevant environmental laws. It is Your responsibility to provide reports to Us that are relevant to these issues.

3.3. We will not undertake a detailed inspection of any plant and equipment or obtain advice on its condition or suitability.

3.4. We recommend that You engage appropriately qualified persons to undertake investigations excluded from the Services.

3.5. No responsibility will be accepted either to You or to any third party for loss or damage that may result directly or indirectly from the condition of the property.

4. ENVIRONMENT AND PLANNING

4.1. We will obtain only verbal town planning information. It is Your responsibility to check the accuracy of this information by obtaining a certificate under the appropriate legislation.

4.2. State or Federal Laws may require environmental audits to be undertaken before there is a change of land use. You will provide such audits to Us where they are required. We will not advise You whether such audits are required or obtain such audits. If You do not provide Us with such audits We will perform the Services on the assumption that such audits are not required.

5. BUILDING AREAS AND LETTABLE AREAS

5.1. Where a survey is provided to Us for consideration, We will assume that information contained in the survey is accurate and has been prepared in accordance with the Property Council of Australia (PCA) Method of Measurement.

5.2. If You do not provide Us with a survey, We will estimate building and/ or lettable areas based only upon available secondary information (including but not limited to building plans, Deposited Plans, and our own check measurements). Such estimates do not provide the same degree of accuracy or certainty as would be provided by a survey prepared by an appropriately qualified professional in accordance with the Property Council of Australia (PCA) Method of Measurement.

5.3. Where such a survey is subsequently produced which differs from the areas estimated then You will refer the valuation or consultancy advice back to Us for comment or, where appropriate, amendment.

6. OTHER ASSUMPTIONS

6.1. Unless otherwise notified by You, We will assume:

(a) there are no easements, mortgages, leases, encumbrances, covenants, caveats, rights of way or encroachments except those shown on the Title; and

(b) all licences and permits can be renewed and We will not make any enquiries in this regard.

6.2. Where third party expert or specialist information or reports are provided to Us or obtained by Us in connection with the Services (including but not limited to surveys, quantity surveyors reports, environmental audits, structural/ dilapidation reports), We will rely upon the apparent expertise of such experts/ specialists. We will not verify the accuracy of such information or reports.

6.3. Where We describe Our valuation or consultancy report or valuation advice as either a kerbside valuation, desktop assessment, restricted assessment or restricted valuation, You will assume it has been carried out in strict compliance with the Restricted Valuation Supporting Memorandum or Residential Desktop Assessment Advisory Note issued by the Australian Property Institute as applicable as at the date of such valuation or assessment.

7. VALUATION FOR FIRST MORTGAGE SECURITY

7.1. Where the Services are provided for mortgage purposes, You agree that You will not use the valuation or consultancy report where the property is used as security other than by first registered mortgage.

7.2. We reserve the right, at Our absolute discretion, to determine whether or not to assign Our valuation to any third party. Without limiting the extent of Our discretion, We may decline a request for assignment where:

(a) the proposed assignee is not a major recognised lending institution (such as a major bank):

(b) the assignment is sought in excess of 3 months after the date of valuation;

(c) We consider that there has been a change in conditions which may have a material impact on the value of the property;

(d) the proposed assignee seeks to use the valuation for an inappropriate purpose (including in a manner inconsistent with Your agreement at clause 7.1); or

(e) Our fee has not been paid in full.

7.3. Where We decline to provide an assignment on either of the bases at 7.2(b) or (c), We may be prepared to provide an updated valuation on terms to be agreed at that time.

7.4. In the event that You request us to assign Our valuation and We agree to do so, You authorise Us to provide to the assignee a copy of these Terms and Conditions, the Quotation and any other document, including instructions provided by You, relevant to the scope of Our Services.

Tew Property Consultants Terms and Conditions

8. ESTIMATED SELLING PRICE

8.1. Where You instruct Us to provide an Estimated Selling Price, You agree that the Services:

(a) Are limited to the provision of an opinion based upon Our knowledge of the market and informal enquiries.

(b) We are not required to carry out a full inspection of the property; any inspection of comparable properties; a search on Title(s) or other enquiries as to encumbrances, restrictions or impediments on Title(s); or other investigations which would be required for a formal valuation.

(c) Provide an indicative figure only which is not suitable for use for any purpose other than as general information or guide as to sale expectations. It is not suitable to be relied upon for the purpose of entry into any transaction.

8.2. No responsibility will be accepted either to you or any third party for loss or damage that may result from the issue of such an Estimated Selling Price.

9. CURRENCY OF VALUATION

9.1. Due to possible changes in market forces and circumstances in relation to the subject property the Services can only be regarded as relevant as at the Currency Date.

9.2. Where You rely upon Our valuation or consultancy report after the Currency Date, You accept the risks associated with market movement between the Currency Date and the date of such reliance.

9.3. Without limiting the generality of 9.2, You should not rely upon Our valuation or consultancy report;

(a) after the expiry of 3 months from the Currency Date;

(b) where circumstances have occurred during that period which may have a material effect on the value of the property or the assumptions or methodology used in the valuation or consultancy report.

10. MARKET PROJECTIONS

10.1. Any market projections incorporated within our Services including, but not limited to, income, expenditure, associated growth rates, incentives, interest rates, yields and costs are projections only, and may prove to be inaccurate. Accordingly, such market projections should be interpreted as an indicative assessment of potentialities only, as opposed to certainties.

10.2. Where Our Services include market projections such as projections which require the dependence upon a host of variables that are highly sensitive to varying conditions. Accordingly, variation in any of these conditions may significantly affect these market projections.

10.3. Where market projections form part of Our Services, We draw your attention to the fact that there will be a number of variables within acceptable market parameters that could be pertinent to Our Services and the projections adopted are representative of only one of these acceptable parameters.

11. YOUR OBLIGATIONS.

11.1. You warrant that the instructions and subsequent information supplied by You contain a full and frank disclosure of all information that is relevant to Our provision of the Services.

11.2. You warrant that all third party expert or specialist reports provided to Us by You for the purpose of Us providing the Services are provided with the authority of the authors of those reports.

11.3. You authorise and licence us to incorporate Your intellectual property within our report(s).

11.4. You will not release any part of Our valuation or consultancy report or its substance to any third party without Our written consent. Such consent will be provided at Our absolute discretion and on such conditions as We may require including that a copy of these Terms and Conditions be provided to such third party. This clause shall not apply to persons noted as recipients in Your prior instruction to Us or in the Quotation provided that you shall provide any such recipient with a copy of these Terms and Conditions.

11.5. If you release any part of the valuation or consultancy advice or its substance with our written consent, You agree: a) to inform the other person of the terms of our consent; and b) to compensate Us if You do not do so. We have no responsibility to any other person even if that person suffers damage as a result of any other person receiving this valuation or consultancy advice.

11.6. You must pay our fees within 14 days of the date of a correctly rendered invoice. Fees that remain unpaid for a period of 30 days or more will attract an administration charge of 2% of the total of the invoice calculated per month or part thereof.

11.7. We reserve the right to reconsider or amend the valuation or consultancy advice, or the Fee set out in our Quotation to You if:

(a) Certificates, surveys, leases, side agreements or related documentation that were not provided to Us prior to the provision of the Services are subsequently provided, and contain matters that may affect the value of the advice; or

(b) Where subsequent site inspections made in relation to any of the matters raised in clause 3 materially affect or may alter the value of the property the subject of the Services.

12. CONFIDENTIALITY

12.1. You must not disclose or make any of the Confidential Information available to another person without Our written consent.

12.2. If consent to disclose the Confidential Information is provided by Us, You agree to abide by any additional terms and conditions that We may apply to that disclosure.

13. PRIVACY

13.1. We may obtain personal information about You in the course of performing Our Services. We respect Your privacy. The Privacy Amendment (Private Sector) Act, 2001 requires Us to advise You that we will only obtain information that is necessary to assist us in the course of performing Our Services. If it is necessary for Us to engage third parties, we will inform these parties that they are not to disclose any personal information about You to any person or organisation other than Us.

14. SUBCONTRACTING

14.1. We may subcontract or otherwise arrange for another person to perform any part of the Services or to discharge any of Our obligations under any part of these Terms and Conditions, with Your consent.

15. LIABILITY

15.1. You agree to release Us and hold Us harmless from all liability to You for or in respect of any loss, damage, costs and expenses of whatsoever kind which we have or may have or, but for the operation of this Clause, might have had arising from or in any way connected with the Services or the use of the Services or any part of them. This release shall be complete and unconditional except in the case of gross negligence or wilful misconduct by Us in the provision of the Services.

15.2. You agree that You will fully indemnify us for an in respect of all loss, liability, costs and expenses of whatsoever kind which We may suffer or incur arising from or in any way connected with any breach by You of Clause 11 or Clause 12. This indemnity shall include but not be limited to loss, liability, costs and expenses which we may suffer or incur in respect of any claims, actions, proceedings, disputes or allegations made against Us or to which we are party.

16. DOCUMENTATION

16.1. We may forward documentation to You which is clearly marked as a “draft” document.

16.2. You agree You will not rely on documentation which is marked “draft” as You understand such documentation is preliminary and may be subject to revision.

16.3. You agree such marked documents cannot, under any circumstances, be relied upon for the purposes of mortgage or other financial security.

16.4. No responsibility will be accepted either to You or to any third party for or in respect of any loss, damage, costs and expenses of whatsoever kind that may result directly or indirectly from You relying on documentation which is provided to You in a “draft” form.

17. ENTIRE AGREEMENT

17.1. No further agreement, amendment or modification of these Terms and Conditions shall be valued or binding unless made in writing and executed on behalf of the Parties by their duly authorised officers.

17.2. If there is an inconsistency between these Terms and Conditions and the Quotation, any letter of instruction from You, or other specific request or information, other specific request or information shall prevail to the extent of the inconsistency.

11.4 Appendix D – Valuation Methodologies for Businesses and Shares

Discounted Cash Flow ("DCF") Method

The DCF approach is a technically superior methodology since it allows for fluctuations in future performance to be recognised. This methodology derives the enterprise value of an entity by discounting its expected future cash flows.

In applying the DCF valuation methodology consideration must be given to the following factors:

- The estimated future cash flows of the business for a reasonable period including as assessment of the underlying assumptions.
- An estimate of the terminal value of the business at the end of the forecast period.
- The assessment of an appropriate discount rate that quantifies the risk inherent in the business and reflects the expected return to which investors can obtain from investments having equivalent risks.

Capitalisation of Estimated FME

The capitalisation of estimated FME method is useful as a primary valuation technique where the DCF methodology cannot be used. This method derives the enterprise value of the entity and requires consideration of the following factors:

- Selection of an appropriate level of estimated FME having regard to historical and forecast operating results, and adjusting for non-recurring or non-business items of income and expenditure in addition to any known factors likely to affect the future operating performance of the business.
- Profits arising from assets which are surplus to the operations of the sustainable business are eliminated and the assets, net of any liabilities relating thereto, treated incrementally.
- Determination of an appropriate capitalisation multiple having regard to the market rating of comparable companies or businesses, the extent and nature of competition in the industry, quality of earnings, future growth opportunities, asset backing and relative investment risk.

Net Asset Backing Approach

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- Separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets, and
- Ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- Orderly realisation: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value

- Liquidation: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value, or
- Going concern: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net asset backing value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The application of the net asset backing methodology is appropriate where a company:

- Is not trading, or
- Is making sustained losses or profits but at a level less than the required rate of return, or
- Is close to liquidation, or
- Is a holding company, or
- Holds assets which 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 methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Share Market Trading History

The application of the price that a company's shares trade on an organised exchange is an appropriate basis for valuation where:

- The shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares, and
- The market for the company's shares is active and liquid.

In such circumstances, the prices at which shares have traded are regarded as reflective of the elements included in the definition of "fair market value".

Recent Share Subscription Prices

The price at which unrelated parties have recently subscribed for shares in a company can be an appropriate methodology to apply in valuing the issued equity in the company, if those prices were paid in freely negotiated transactions in an open and unrestricted market between a knowledgeable, willing, but not anxious, parties acting at arm's length.

In applying this methodology it is relevant to consider the following factors:

- The timing of any shares issues
- Any pre-existing relationship (if any) between the subscribers to the shares and the company
- The level of knowledge that the parties subscribing to the shares could reasonably be assumed to possess, and
- The extent of any material changes in circumstances that have occurred between the date on which the shares were issued and the valuation date.

Capitalisation of Estimated Future Maintainable Dividends

The mechanics of the capitalisation of estimated future maintainable dividends valuation method is similar to that of the capitalisation of estimated future maintainable earnings method. The methodology is most commonly applied to minority holdings in private companies and unlisted public companies. It requires the estimation of future maintainable earnings, the likely distribution of such earnings as dividends and the application of an appropriate dividend yield or discount rate.

The capitalisation of estimated future maintainable dividends methodology is generally applicable only where the equity interest subject to valuation has no effective control in the determination of dividend policy.

11.5 Appendix E – Comparable Company Details

Company	Quote Symbol	Business Description	Market Capitalisation 29 June 2014 ($m)
Austin Engineering Ltd	ASX:ANG	Austin Engineering Ltd is engaged in the manufacture, repair, overhaul, and supply of mining attachment products, general steelwork structures, and other associated products and services for the industrial and resources-related business sectors in Australia, the Americas, the Middle East, and Asia. It provides off-highway dump truck bodies; hydraulic excavator and shovel buckets; wheel loaders; water tanks; lubrication service and fuel modules; tire handling equipment; and various materials handling products, such as fork frames, combi-forks, crane jibs, quick couplers, blades, and others. The company also offers specialized and fabrication products, including mineral processing equipment and heavy structural fabrication, as well as smelter components comprising potshells, busbar, and anodes. In addition, the company is involved in specialized machining and line boring activities consisting of overhaul and associated manufacture of shovel parts, track frames, and other equipment; and provides machining and mobile line boring services, as well as cooling systems. Austin Engineering Ltd was founded in 1982 and is headquartered in Carole Park, Australia.	134.8
Emeco Holdings Limited	ASX:EHL	Emeco Holdings Limited provides heavy earthmoving equipment rental solutions and maintenance services to mining companies and contractors in Australia, Canada, Chile, and Indonesia. The company provides rear dump trucks, articulated trucks, excavators, loaders, graders, and dozers, as well as ancillary equipment comprising water carts, service trucks, compactors, integrated tool carriers, and tire handlers. As of August 22, 2013, it operated a fleet of approximately 800 machines. The company was founded in 1972 and is headquartered in Osborne Park, Western Australia.	122.4
Resource Equipment Ltd	ASX:RQL	Resource Equipment Limited manufactures, assembles, sells, and supports specialist rental equipment primarily for the mining, oil and gas, heavy engineering, and infrastructure industries in Australia and Indonesia. It supplies water management systems and pumping equipment comprising clean water, dry-self priming, multi stage, positive displacement, slurry, submersible, and other pumps; power equipment, such as generators and hydraulic power units; air compressors; and accessories consisting of self cleaning filters, electro magnetic flow meters, break tanks, valves, pipelines and hosing, pontoons, remote bulk fuel tanks, and electrical equipment. The company is also involved in the design and installation of HDPE piping systems and pipelines, as well as provides associated transport, handling, and earthworks; and provision of mine pumping equipment and dewatering systems, assisted evaporation system units, oil and gas–specialty pumping and pipeline equipment, and back to base monitoring equipment. In addition, it offers hydromining, borefield pumping and monitoring, emergency response, and flood management services, as well as engineering, design, and construction services. The company was formerly known as RER Group Limited and changed its name to Resource Equipment Limited in September 2010. Resource Equipment Limited is headquartered in Welshpool, Australia.	37.1
Boom Logistics Ltd	ASX:BOL	Boom Logistics Limited provides crane logistics and lifting solutions to the mining and resources, energy, utilities, and infrastructure sectors in Australia. The company offers short term or long term hire, including wet hire or dry hire services. Its solutions comprise mobile and crawler cranes, as well as travel towers and access equipment on a wet hire basis; and heavy haulage vehicle that includes low loaders to transport heavy and large equipment, as well as provides engineering services. The company also offers special hydraulic mobile cranes and low profile prime movers; and access equipment, such as boom lifts, knuckle booms, EWPs, and travel towers. It operates a fleet of approximately 500 cranes, 300 travel towers, and 1,500 access equipment items. The company, formerly known as The Australian Crane Company, was incorporated in 2000 and is based in Southbank, Australia.	59.4
Mastermyne Group Limited	ASX:MYE	Mastermyne Group Limited provides contracting services to the underground long wall mining operations; and surface maintenance and electrical services in the coalfields of Queensland's Bowen Basin and New South Wales, Australia. The company operates in three segments: Underground Mining Services, Electrical and Mechanical Services, and Engineering and Fabrication. The Underground Mining Services segment provides project management and engineering services; labour and equipment hire; underground conveyor installation, extension, and maintenance; underground roadway development; underground ventilation device installation; and bulk materials handling system installation and relocation, as well as underground mine support services. The Electrical and Mechanical Services segment offers above ground electrical and mechanical services, including construction, maintenance, and overhaul of draglines, wash plants, materials handling systems, and other surface infrastructure. The Engineering and Fabrication segment designs and fabricates attachments for underground equipment; provides general engineering and fabrication services; and supplies consumables for underground coal mines. Mastermyne Group Limited was founded in 1996 and is headquartered in Mackay, Australia.	34.7
Delta SBD Limited	ASX:DSB	Delta SBD Limited provides contract mine services for the underground coal industry in Australia. The company's services include mine operations, development of underground roadways, longwall installations and relocations, conveyor installations and maintenance, bord and pillar extraction, and equipment rental. It also provides general mining services comprising the installation of roadway supports and ventilation devices, drill and blast excavations, service extensions/retractions, supplementary contract labor, supply of fit for purpose equipment, secondary support, conveyor extensions, underground civil works, dyke excavation, and longwall and development support, as well as project management, supervisors, operators, and trades. Delta SBD Limited is headquartered in Campbelltown, Australia.	5.7

Source: Capital IQ

SubZero Group Limited
ABN 68 009 161 522

LODGE YOUR VOTE

ONLINE www.linkmarketservices.com.au

By mail:
SubZero Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

By fax: +61 2 9287 0309

All enquiries to: Telephone: +61 1300 554 474

X99999999999

SHAREHOLDER PROXY FORM

I/We being a member(s) of SubZero Group Limited and entitled to attend and vote hereby appoint:

STEP 1 APPOINT A PROXY

☐ **the Chairman of the Meeting** ***(mark box)***

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at **10:00am on Tuesday, 30 September 2014, at PwC Sydney, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000** and at any adjournment or postponement of the meeting.
The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

STEP 2 VOTING DIRECTIONS

Resolutions

		For	Against	Abstain*
1(a)	To approve the entry by the Company into the draft Share and Unit Sale Agreement between the Company, Scott Farrell, TMD Investments Pty Ltd, J M Auto Australia Pty Ltd as trustee for the JM Investments Trust and TMD Investments Pty Ltd as trustee of the TMD Unit Trust	☐	☐	☐
1(b)(i)	To approve the issue of a maximum of 28,320,000 equity securities in the capital of the Company to Scott Farrell and J M Auto Australia Pty Ltd as trustee for the JM Investments Trust	☐	☐	☐
1(b)(ii)	To approve the purchase by the Company of assets owned by JMAA, being 8 units in the TMD Unit Trust	☐	☐	☐
1(b)(iii)	To approve the issue of a maximum of 28,320,000 equity securities in the capital of the Company including the issue of equity securities	☐	☐	☐
1(c)	To approve the acquisition by Scott Farrell of a relevant interest in issued voting shares of the Company	☐	☐	☐
1(d)	To approve the Company issuing, within a 12 month period, equity securities in the capital of the Company representing greater than 15% of the total number of equity securities in the capital of the Company currently on issue, to a maximum of 48,000,000 shares	☐	☐	☐
1(e)	To approve the acquisition by the Company of a substantial asset, being all of the issued share capital in TMD Investments Pty Ltd and 92 units in the TMD Unit Trust, from Scott Farrell, a related party of the Company, and 8 units in the TMD Unit Trust from JMAA, a party acting in concert with Scott Farrell	☐	☐	☐
1(f)	To approve the issue by the Company of equity securities to Scott Farrell, a related party of the Company, and JMAA, a party acting in concert with Scott Farrell	☐	☐	☐

ⓘ * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

SZG PRX401

HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company. A proxy may be an individual or a body corporate.

Votes on Items of Business – Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Sunday, 28 September 2014,** being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).

by mail:

SubZero Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

by fax:

+61 2 9287 0309

by hand:

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the Extraordinary General Meeting, please bring this form with you. This will assist in registering your attendance.