

**LIVING CITIES DEVELOPMENT GROUP LIMITED  
ABN 14 074 009 091**

**(Subject to Deed of Company Arrangement)**

**NOTICE OF GENERAL MEETING OF SHAREHOLDERS AND EXPLANATORY STATEMENT**

**For a General Meeting of Shareholders to be held on Wednesday 31<sup>st</sup> May 2017 at  
11.00am (AEST) at  
Nicols and Brien, Level 2, 350 Kent Street, Sydney, New South Wales, Australia**

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## LETTER TO SHAREHOLDERS

Dear Shareholder

2 May 2017

As you may be aware, 7 April 2015, the Company's Shares were suspended from quotation on the official list of the Australian Securities Exchange ("**ASX**").

On 1 July 2016, we were appointed Joint and Several Voluntary Administrators of the Company.

A proposal from Benelong Capital Partners Pty Ltd ("**Benelong**"), for the restructure and recapitalisation of the Company was submitted to the Company on 1 July 2016 ("**Recapitalisation Proposal**").

The Creditors of the Company have agreed to the Benelong Recapitalisation Proposal. A Deed of Company Arrangement was entered into by the Company on 17 August 2016 under which, we, as Deed Administrators, were appointed to effect the terms of the Benelong Recapitalisation Proposal ("**DOCA**").

The Recapitalisation Proposal requires, and is subject to, various approvals being obtained from the Shareholders ("**Resolutions**"). A summary of the Resolutions being put forward at the Meeting are as follows:

- (1) The company issue a bonus issue of 1 for 1 existing shares of 5,620,647 to existing shareholders;
- (2) The Company to allot and issue 136.9 million shares to raise a total of \$451,000.00;
- (3) Some directors of the Company be removed;
- (4) New directors be appointed to the Company; and
- (5) Change of name of the Company.

Accordingly, we have called a General Meeting of the Company to consider the Resolutions ("**Meeting**"). The Meeting will be held at 11.00am (Sydney Time) at the premises of Nicols and Brien, Level 2, 350 Kent Street, Sydney NSW on Wednesday 31 May 2017.

Enclosed with this letter are the Notice of General Meeting ("**Notice**"), the Explanatory Statement and an Independent Expert's Report prepared by Stantons International Securities ("**Report**") and a Proxy Form.

The Recapitalisation Proposal is also subject to the following conditions ("**Conditions**"), summarised as follows:

- (a) the Resolutions being approved without amendment;
- (b) the Deed Administrators creating the Creditors Trust (as defined in the DOCA) and effectuating the DOCA in accordance with the terms of the DOCA;
- (c) Benelong paying the Benelong Capital Contribution (as defined in the DOCA) to the Deed Administrators;
- (d) the Deed Administrators procuring that creditors with a security interest registered on the PPSR Register remove such interest from the personal property securities register established by the Personal Property Securities Act, 2009; and
- (e) the Deed Administrators retiring from office upon collection of the Benelong Capital Contribution.

If the Conditions are not met or waived by 1 July 2017 or such or other date as agreed by the Deed Administrators and Benelong or if it appears the terms of the DOCA cannot be fulfilled then the Deed Administrators may take steps to place the Company into liquidation.

In considering the Resolutions, Shareholders should bear in mind the Company's current financial circumstances. As mentioned above, the Company's Shares have been suspended from quotation on the ASX since 7 April 2015 and the Company requires recapitalisation in order to continue its operations and to seek reinstatement of its Shares to official quotation on the ASX.

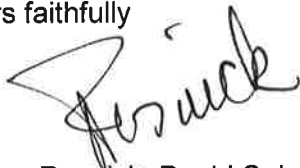
Ultimately, if the Resolutions are approved and implemented, the Company will be debt free, and in a position to seek opportunities to create shareholder wealth.

If the Resolutions are not approved and the Conditions have not been met by the time stated in the DOCA, the DOCA may terminate in which case the Company may be placed into liquidation. It is expected that there will be no return to Shareholders in a liquidation.

However, we make no representation or warranty whatsoever that the Recapitalisation Proposal will enhance Shareholder value. We have not considered the situation of any particular Shareholder. The information contained in the Notice and Explanatory Statement has been provided by a third party and has not been verified by us or our advisers. Shareholders should make their own enquiries to satisfy themselves on all aspects of the Recapitalisation Proposal. Details contained in this letter, the Notice, Explanatory Statement and Report, do not constitute any representation by us.

Before voting on the Resolutions, Shareholders should consider the appropriateness of the Recapitalisation Proposal having regard to their own objectives, financial situation and needs including any taxation consequences, and carefully read the Report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Resnick', with a stylized flourish at the end.

Antony Resnick, David Solomons and Riad Tayeh

Joint and Several Deed Administrators

Living Cities Development Group Limited (ACN 074 009 091)

(Subject to Deed of Company Arrangement)

**LIVING CITIES DEVELOPMENT GROUP LIMITED**  
**ABN 14 074 009 091**

(Subject to Deed of Company Arrangement)

**NOTICE OF GENERAL MEETING**

Notice is given that a General Meeting of Shareholders of Living Cities Development Group Limited (Subject to Deed of Company Arrangement) (**Company**) will be held at Nicols and Brien, Level 2, 350 Kent Street, Sydney, New South Wales at 11.00am (AEST) on Wednesday 31 May 2017 (meeting).

For the purpose of regulation 7.11.37 of the Corporations Regulations 2001, the Deed Administrators have determined that the shareholding of each Shareholder for the purposes of ascertaining their voting entitlements for the Meeting will be as it appears on the Company's share register at 11.00am (Sydney Time) on 29 May 2017 (**the Entitlement Time**). Accordingly, only those persons registered as holders of Shares at the Entitlement Time will be entitled to attend and vote at the Meeting. Transactions registered after that time will be disregarded in determining Shareholders entitled to attend and vote at the Meeting.

The Explanatory Statement that accompanies and forms part of this Notice of General Meeting (**the Notice**) describes in more detail the matters to be considered at the Meeting. In addition, the Explanatory Statement should be read in conjunction with the Independent Expert's Report prepared by Stantons International Securities is contained in Annexure A to the Explanatory Statement.

The Deed Administrators have been appointed under the DOCA and have the authority to convene the Meeting to give effect to the Recapitalisation Proposal. The information contained in this Notice and the Explanatory Statement has not been verified independently by the Deed Administrators or their advisers. The Deed Administrators have issued these documents in their capacity as Deed Administrators only and expressly disclaim responsibility and liability for, and do not make any representation or warranty as to, the accuracy, reasonableness or completeness of the information in these documents.

Unless otherwise stated, all references to sums of money, '\$' and 'dollars' are references to Australian currency. Please refer to the glossary at the end of the Explanatory Statement accompanying this Notice for a glossary of terms and abbreviations used in this Notice.

**AGENDA**

**Resolution 1 – Allotment and Bonus Issue of Shares to Existing Shareholders**

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

“That, subject to the passing of Resolutions 2 to 9 for the purposes of Listing Rule 7.1 of the Listing Rules of the ASX, and for all other purposes, approval is given to the Company to allot and issue a bonus issue of 5,620,647 fully paid ordinary shares in the capital of the company to existing shareholders on a 1 share for 1 share held basis, and otherwise on the terms set out in the Explanatory Statement accompanying this Notice.”

**Note:** The maximum level of voting power will be 3.77% (approx) if this resolution is passed along with all other resolutions.

**Resolution 2 – Allotment and Issue of Shares to Living Cities Creditors Trust**

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

"That, subject to the passing of Resolutions 1, 3, and 4 to 9 for the purposes of Listing Rule 7.1 of the Listing Rules of the ASX, and for all other purposes, approval is given to the Company to allot and issue 800,000 fully paid ordinary shares in the capital of the Company to Living Cities Creditors Trust or its nominee, at an issue price of nil cents and otherwise on the terms set out in the Explanatory Statement accompanying this Notice."

**Note:** The maximum level of voting power will be 0.5% (approx) if this resolution is passed along with all other resolutions.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Living Cities Creditors Trust and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons. However, the entity 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 if it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Resolution 3 – Allotment and Issue of Shares to Mr Leslie Szancer**

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

"That, subject to the passing of Resolutions 1, 2 and 4 to 9 for the purposes of Item 7 of Section 611 and Chapter 2E of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given to the Company to allot and issue to Leslie Szancer, 41,666,667 fully paid ordinary shares in the capital of the Company at an issue price of \$0.00359999997 to raise a total amount of \$150,000.00 and otherwise on the terms set out in the Explanatory Statement accompanying *this Notice*."

**Note:** The maximum level of voting power will be 27.96% (approx) if this resolution is passed along with all other resolutions.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Leslie Szancer and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons. However, the entity 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 if it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Resolution 4 – Allotment and Issue of Shares to Mr Alexander Harmstorf**

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

"That, subject to the passing of Resolutions 1, 2, 3 and 5 to 9 for the purposes of Item 7 of Section 611 and Chapter 2E of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given to the Company to allot and issue to Alexander Harmstorf, 41,666,667 fully paid ordinary shares in the capital of the Company at an issue price of \$0.00359999997 to raise a total amount of \$150,000.00 and otherwise on the terms set out in the Explanatory Statement accompanying *this Notice*."

**Note:** The maximum level of voting power will be 27.96% (approx) if this resolution is passed along with all other resolutions.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Alexander Harmstorf and any person who might obtain a benefit, except a benefit solely in the capacity

of a security holder if the resolution is passed, and any associates of those persons. However, the entity 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 if it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **Resolution 5 – Allotment and Issue of Shares to Mr Christopher Anderson**

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

“That, subject to the passing of Resolutions 1, 2, 3, 4 and 6 to 9 for the purposes of Item 7 of Section 611 and Chapter 2E of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given to the Company to allot and issue to Christopher Anderson, 41,666,667 fully paid ordinary shares in the capital of the Company at an issue price of \$0.00359999997 to raise a total amount of \$150,000.00 and otherwise on the terms set out in the Explanatory Statement accompanying *this Notice*.”

**Note:** The maximum level of voting power will be 27.96% (approx.) if this resolution is passed along with all other resolutions.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Christopher Anderson and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons. However, the entity 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 if it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **Resolution 6 – Allotment and Issue of Shares to Benelong Capital Partners Pty Ltd**

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

“That, subject to the passing of Resolutions 1, 2, 3, 4, 5 and 7 to 9 for the purposes of Listing Rule 7.1 of the Listing Rules of the ASX, and for all other purposes, approval is given to the Company to allot and issue 11,958,706 fully paid ordinary shares in the capital of the Company to Benelong Capital Partners Pty Ltd or its nominee, at an issue price of \$0.00008362108 to raise \$1,000.00 and otherwise on the terms set out in the Explanatory Statement accompanying this Notice.”

**Note:** The maximum level of voting power will be 8.02% (approx.) if this resolution is passed along with all other resolutions.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Benelong Capital Partners Pty Ltd and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons

#### **Resolution 7 - Election of Mr Leslie Szancer as a Director**

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

“That, subject to the passing of Resolutions 1 to 6, and 8 and 9, Mr Leslie Szancer, being eligible and having consented to act, be elected as a director and as the Company Secretary of the Company, effective at the conclusion of the meeting.”

#### **Resolution 8 – Election of Mr Alexander Harmstorf as a Director**

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

“That, subject to the passing of Resolutions 1 to 7 and 9, Mr Alexander Harmstorf being eligible and having consented to act, be elected as a director of the Company, effective at the conclusion of the meeting.”

#### **Resolution 9 – Election of Mr Christopher Anderson as a Director**

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

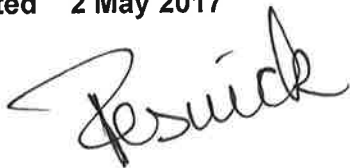
“That, subject to the passing of Resolutions 1 to 8, Mr Christopher Anderson being eligible and having consented to act, be elected as a director of the Company, effective at the conclusion of the meeting.”

#### **Resolution 10 – Change of Name**

“To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

“That for the purpose of Section 157(1) of the Corporations Act and for all other purposes, the name of the company be changed to “Birrabong Corporation Limited” and the Constitution be amended accordingly”.

**Dated 2 May 2017**



**Antony Resnick, David Solomons and Riad Tayeh  
Joint and Several Deed Administrators  
Living Cities Development Group Limited (Subject to Deed of Company Arrangement)**

## NOTES:

1. A Shareholder of the Company who is entitled to attend and vote at a general meeting of Shareholders is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
3. For the purposes of Regulation 7.11.37 of the Corporations Act, the Deed Administrators have determined that the shareholding of each Shareholder for the purposes of ascertaining their voting entitlements for the Meeting will be as it appears on the Company's share register at 11.00am (Sydney Time) on 29 May 2017 (the Entitlement Time). Accordingly, only those persons registered as holders of Shares at the Entitlement Time will be entitled to attend and vote at the Meeting. Transactions registered after that time will be disregarded in determining Shareholders entitled to attend and vote at the Meeting.
4. In accordance with Section 250BA of the *Corporations Act 2001* the Company specifies the following information for the purposes of receipt of proxy appointments:

### **Mail and physical address**

C/- Benelong Capital Partners Pty Ltd  
Level 2, 350 Kent Street,  
SYDNEY NSW 2000

Facsimile: +61 2 9299 2239

The instrument appointing the proxy must be received by the Company at the address specified above at least forty eight (48) hours before the time notified for the meeting (proxy forms can be lodged by facsimile).

For any questions, please call Steve Nicols on phone +61 2 9299 2289 or email to [steve@benelongcapitalpartners.com](mailto:steve@benelongcapitalpartners.com)



## EXPLANATORY STATEMENT

### 1. GENERAL INFORMATION

This Explanatory Statement has been prepared for the Shareholders of Living Cities Development Group Limited (**Company**)(Subject to Deed of Company Arrangement) in connection with the Resolutions 1-10 (inclusive) to be considered at the General Meeting of the Company's Shareholders to be held Nicols and Brien, Level 2, 350 Kent Street, Sydney, New South Wales at 11.00 a.m. (Sydney Time) on Wednesday 31 May 2017 ("**Meeting**").

The purpose of this Explanatory Statement is to provide information to Shareholders which is considered to be material to them in deciding whether or not to pass the Resolutions in the Notice of General Meeting of the Company ("**Notice**").

Shareholders should read this Explanatory Statement in full because individual sections do not give a comprehensive review of the Resolutions. In addition, this Explanatory Statement should be read in conjunction with the accompanying Notice and the Independent Expert's Report prepared by Stantons International Securities, a copy of which is attached to Annexure A of the Explanatory Statement ("**IER**").

In considering the Resolutions, Shareholders must bear in mind the current financial circumstances of the Company. In this regard, Shareholders should note that reports have been made by the Company's appointed Administrators in accordance with the Corporations Act. The reports set out in detail the financial position of the Company, the actions and investigations to be taken by the Administrators and the reasons for the current status of the Company. The Administrators reports are available by contacting De Vries Tayeh on phone (02) 9633 3333, or Steve Nicols on phone (02) 9299 2289, who can arrange for copies to be sent.

If all of the Resolutions are passed and the Recapitalisation Proposal proposed by Benelong is completed, the Company will be debt free and solvent. Completion of the Benelong proposal will not be enough to meet the ASX Listing Rule requirements for re-quotation. Re-quotation is a difficult exercise (among other things, the company will be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules), and the completion of the Recapitalisation Proposal will not guarantee the reinstatement of the company to the official list of the ASX. If Shareholders do not approve the Resolutions and consequently and as a consequence the Recapitalisation Proposal is rejected, the Company will likely go into liquidation and it is likely that there will be no return to Shareholders .

#### 1.1 Overview

##### 1.1.1 Background

A general background in respect of the appointment of the Administrators is set out in the letter by the Deed Administrators to Shareholders accompanying the Notice ("**Letter**") and in the IER.

##### 1.1.2 Past and future business of the Company

###### *Past Business*

The Company was incorporated on 16 May 1996, and was admitted to the Official List of the ASX on 27 July 2006.

The Company's business was as an iron ore explorer which at the time of its listing focused on the area 14 kilometres east of Yalgoo that is known as the Yogi deposit. The company subsequently attempted to diversify into gold exploration and a haematite

ironore project but experienced ongoing difficulties due to the downturn in the resources sector generally.

Due to the holding costs the company was progressively forced to surrender its gold tenements, hand back its haematite project interest and put the Yogi project up for sale.

The purchaser of the Yogi project subsequently defaulted and the company efforts to undertake a reconstruction process were unsuccessful.

On 7 April 2015 the Company's Shares were suspended from quotation on the official list of the Australian Securities Exchange and on 1 July 2016 Administrators were appointed to the company.

### ***Future Business***

The proposed new Directors will seek out opportunities in other industries with a view to enhancing Shareholder value. Any significant change in the nature of Company's activities will require Shareholder approval under Listing Rule 11.

#### **1.1.3 Purpose of funds to be raised under the Recapitalisation Proposal**

The Recapitalisation Proposal seeks to raise the sum of \$451,000.00 through issues of Shares to sophisticated, professional or other exempt investors who do not require a disclosure document under section 708 of the Corporations Act. The purpose of these capital raisings are to:

- (a) pay for the Deed of Company Arrangement ("**DOCA**"), payment to creditors so as to remove the Company from Administration and to extinguish all liabilities;
- (b) pay for the recapitalisation costs, detailed below;
- (c) provide working capital to meet the administration costs of the Company.

An estimated budget is set out below.

#### ***Estimated Use of Funds – Expenditure Budget***

<b>Total funds raised \$451,000</b>	<b>\$</b>
Deed of Company Arrangement Payment to Creditors	335,000
Independent Experts Report	9,000
Printing and Postage of Notice of Meeting	8,000
Legal costs for review and advice on Notice of Meeting	5,000
ASX Fees – 2017 yearly fee reimbursement	12,500
Company Secretarial	1,000
Benelong Capital Partners Pty Ltd – Recapitalisation Advice	34,500
Goods and Services Tax	11,000
Working Capital for proposed administration costs of the company including proposed accounting and proposed auditing and assessment of opportunities	35,000
<b>Total funds utilised (\$)</b>	<b>451,000</b>

The company's arrangement with Benelong Capital Partners Pty Ltd is the company will reimburse Benelong for payments Benelong pays to third parties to achieve the recapitalisation proposal. The company will also pay a fee of \$34,500 as detailed above, only if the recapitalisation proposal is successfully completed. Therefore, Benelong is taking a risk that it may not be reimbursed payments Benelong pays to third parties if the recapitalisation proposal fails.

The arrangement with Benelong and Mr Leslie Szancer, Mr Alexander Harmstorf and Mr Christopher Anderson is that AXL Capital Partners Pty Ltd has paid Benelong a mandate fee of \$45,454 plus GST to formulate the recapitalisation proposal. The costs of Nicols and Brien will be paid by AXL Capital Partners Pty Ltd of \$45,454 plus GST only if the recapitalisation proposal is successful.

The Deed Administrators arrangement with Benelong is that Benelong is required to pay \$335,000 into the Deed Fund in order to pay creditors and extinguish all company liabilities. When the payment occurs, Benelong is entitled to be reimbursed by the company, as stated above. Benelong has already paid the Deed Administrators a \$20,000.00 non refundable deposit.

#### 1.1.4 Investors

The investors in the Recapitalisation Proposal are Benelong Capital Partners Pty Ltd, Mr Leslie Szancer, Mr Alexander Harmstorf and Mr Christopher Anderson.

Benelong Capital Partners Pty Ltd ("Benelong") is co-ordinating the completion of the proposal, the shareholders meeting, the DOCA effectuation and the transition of new shareholders and new directors.

Benelong is a Sydney based firm specialising in recapitalising ASX listed and suspended companies. Its managing director, Steve Nicols, has assisted in 23 re-capitalisations of ASX listed companies in the last 10 years.

Mr Leslie Szancer, Mr Alexander Harmstorf and Mr Christopher Anderson are Sydney based investors. Their related company "AXL Capital Partners Pty Ltd" provides services to companies seeking access to capital markets. Further details on the three gentlemen are in paragraph 1.3. Mr Leslie Szancer, Mr Alexander Harmstorf and Mr Christopher Anderson are acting in concert in terms of Section 228(7) of the Corporations Act, 2001. They will act together, and they will effectively control the company if the proposed resolutions are passed, (having approximately 83.94% as noted in table below).

#### Current Capital Structure

	Shares
Current Shares on Issue	5,620,647

#### Proposed Capital Structure

	Shares	(Approx) % Percentage
Existing	5,620,647	3.77225%
Resolution 1 Bonus Issue of Shares	5,620,647	3.77225%
Resolution 2 Issue of Shares to Creditors Trust	800,000	0.53691%
Resolutions 3 & 4 & 5 Issue of Shares	125,000,000	83.89262%
Resolution 6 Issue of Shares	11,958,706	8.02598%
TOTALS	149,000,000	100%

## 1.2 Summary of the terms of the Recapitalisation Proposal

Set out below is a detailed summary of the Recapitalisation Proposal.

The Recapitalisation Proposal provides for the appointment of three New Directors and retirement of existing directors and company secretary.

The essential terms of the Recapitalisation Proposal are as follows:

- (a) Issue of shares to the Creditors Trust, i.e. 800,000, for nil consideration as per Deed of Company Arrangement requirements; Bonus issue of shares to existing shareholders on a 1 for 1 basis, namely 5,620,647 shares.
- (b) The investors, will subscribe in aggregate for 136,958,706 shares to raise \$451,000.00.
- (c) The New Directors and a new company secretary for the Company will be appointed together with a change of company name of the Company.

The Recapitalisation Proposal was submitted to the company by Benelong on 1 July 2016 and adopted by the Administrators and Deed Administrators. It was accepted by the Company's Creditors on 3 August 2016. The Deed of Company Arrangement incorporating the Recapitalisation Proposal was signed on 17 August 2016. The Resolutions put forward in the Meeting are for the purposes of implementing the Recapitalisation Proposal. The key terms of the DOCA are that Benelong is to pay \$335,000 into the Deed Fund; directors will be changed; creditors debts are extinguished and are transferred to the Creditors Trust; the Creditors Trust will be allotted 800,000 shares; the company is removed from External Administration; the Deed Administrators retire; the conditions precedent are that shareholders pass all resolutions of the recapitalisation proposal.

The Recapitalisation Proposal involves the simultaneous completion or "effectuation" of the Deed of Company Arrangement and the creation of a Creditors Trust. This enables the Company to be immediately released from administration under the DOCA once all Resolutions are passed at the Meeting and all other conditions as set out in the DOCA are met or waived ("**Completion**"). The Company will also be released from all Creditors Claims estimated at \$4,377,490 and will have nil liabilities once Completion occurs. The amount existing creditors will receive is \$335,000, (less Deed Administration fees and expenses), and 800,000 shares as per the DOCA noted above, from the recapitalisation proposal.

The Creditors Trust Deed will be signed if shareholders approve all resolutions.

## 1.3 New Directors

### *Proposed Director Leslie Szancer*

Mr Szancer is a director and shareholder of AXL Capital Partners Pty Ltd, a Sydney based company. Leslie holds an AFS Representative licence. He has assisted in the recent I.P.O's of several companies onto the ASX, and in 2016 assisted "JCI", "DXF", "DFM".

### *Proposed Director Mr Alexander Harmstorf*

Mr Harmstorf graduated from University of Western Sydney in 2000, with a Degree in Law. He is a practising lawyer and director of AXL Legal Solutions Pty Ltd, which owns 1/3 of AXL Capital Partners Pty Ltd.

### *Proposed Director Mr Christopher Anderson*

Mr Anderson has had an extensive 35 year career in NSW rugby league, playing for Australia. He has many and varied business contacts. In 2009 he founded his business Anderson Recruitment and Training. In 2016 his business announced a marketing and business agreement with ASX listed J C International Ltd.

## **1.4 ASX Listing**

The Company is admitted to the Official List of ASX. However trading in the Company's Shares was suspended on 7 April 2015. Trading in the Shares will not recommence until all Resolutions are passed and not until the Company complies with Chapters 1 and 2 of the Listing Rules, or until ASX advises otherwise.

The intention of the New Directors with regard to the business of the Company is to use the working capital to be injected into the Company via the Recapitalisation Proposal for the purposes described in Section 1.1.3 of this Statement. The New Directors' plan is to seek out opportunities that might enable the Company's Shares to be reinstated to quotation on the ASX. There is no certain timeframe as to when this may occur. There is no present intention for any party to inject further capital into the Company apart from that already stated in the Recapitalisation Proposal.

## **1.5 Advantages and Disadvantages of the Recapitalisation Proposal**

### Advantages

- 1.5.1 The passing and consummation of Resolutions 1 to 9 as part of the recapitalisation proposal would result in a net cash position of approximately \$35,000 (assuming the capital raising of the \$451,000 referred to above) and having a company with minimal or no liabilities, compared with the current position whereby the Company has net assets of \$nil and significant debts to pay.
- 1.5.2 If the proposals per Resolutions 1 to 9 are consummated as part of the recapitalisation process, the net cash asset backing of a LCG share rises from nil cents to approximately \$0.000234899 cents.
- 1.5.3 If Resolutions 1 to 9 are passed together with the completion of the recapitalisation proposal, the Company's chances to continue to investigate opportunities are enhanced as without the recapitalisation, it is likely that the Company may be dissolved and struck off. The Company would need to find a new business and raise additional funds so that it could meet the Listing Rules.
- 1.5.4 The proposed directors bring additional expertise to the Company in that such Directors have financial, legal, finance and corporate experience and/or experience as directors or managers of trading entities. Paragraph 1.3 above discloses the background of the proposed directors.

### Disadvantages

- 1.5.5 A significant shareholding in the Company is being given to Leslie Szancer, Alexander Harmstorf and Christopher Anderson in that they could own approximately 83.89262% of the expanded issued capital of the Company after the passing of Resolutions 1 to 9 (the passing of Resolutions 1 to 9 are dependent on all resolutions being passed). However, we note that LCG will be partly recapitalised with approximately \$35,000 in net cash (assuming completion of the \$451,000 total capital raising), will have no debt and will have the opportunity to consider the acquisition of other assets or businesses. The existing shareholders are diluted to approximately 7.54% if the recapitalisation proposal is completed. It is assumed that all investors will obtain a benefit particularly if the

Company's shares can be re-quoted on ASX (the Company will need to re-comply with Chapters 1 and 2 of the ASX Listing Rules).

1.5.6 LCG would only have approximately net cash of \$35,000 after the issue of the 125 million shares to Leslie Szancer, Alexander Harmstorf and Christopher Anderson (and the issue of 11,958,706 shares to Benelong) for a total capital raising of \$451,000 per Resolutions 3, 4, 5 and 6. The Company would still need to find a new business and raise additional funds so that it could meet the Listing Rules. In the absence of a superior offer (made before shareholders vote on Resolutions 1 to 9) then shell value does not exist and it is quite possible in the absence of any other recapitalisation proposal, the Company could be placed into liquidation.

1.5.7 If the Company seeks new business opportunities, there is no guarantee that such businesses will be profitable.

## **1.6 Conclusion**

The Resolutions set out in the Notice are important and affect the future of the Company. All of the Resolutions need to be approved in order to implement the Recapitalisation Proposal. Shareholders are therefore urged to give careful consideration to the Notice the contents of this Statement and the IER.

## **2. THE RESOLUTIONS**

### **2.1 Resolution 1 Allotment and Bonus Issue of Shares to Existing Shareholders**

This Resolution is required to be approved by Shareholders. Shareholders will recall the 1:40 consolidation that occurred on 3 December 2015 in tandem with the Chinese project that ultimately did not eventuate. This proposed Resolution 1 re-addresses the appropriate capital structure going forward.

#### **Information required by ASX Listing Rules**

- (a) The following information is provided to Shareholders in accordance with Listing Rule 7.3 for the purpose of obtaining shareholder approval under Listing Rule 7.1 for Resolution 1:
- (b) The maximum number of shares to be issued by the Company to Existing Shareholders is 5,620,647 shares at an issue price of \$Nil to raise \$Nil;
- (c) It is anticipated that the issue of the shares will occur on one date and will not be later than three months after the date of the meeting;
- (d) It is proposed that the 5,620,647 shares be issued to Existing Shareholders on a one for one basis of shares currently held;
- (e) The new shares will rank equally with the existing shares;
- (f) No funds will be raised from the issue of the 5,620,647 shares; and
- (g) The date of allotment of the shares will be the same date on which they are issued.

### **2.2 Resolution 2 Allotment and Issue of new Shares to Living Cities Creditors Trust**

This Resolution is required to be approved by Shareholders in accordance with ASX Listing Rule 7.1 and Resolution 2, seeks approval for the issue of 800,000 shares to Living Cities Creditors Trust or its nominee for nil consideration. This is a requirement

under the Deed of Company Arrangement. It equates to part payment of creditors debts with equity.

### Information required by ASX Listing Rules

- (a) The following information is provided to Shareholders in accordance with Listing Rule 7.3 for the purpose of obtaining shareholder approval under Listing Rule 7.1 for Resolution 2:
- (b) The maximum number of shares to be issued by the Company to Living Cities Creditors Trust or its nominee is 800,000 shares at an issue price of \$Nil to raise \$Nil;
- (c) It is anticipated that the issue of the shares will occur on one date and will not be later than three months after the date of the meeting;
- (d) It is proposed that the 800,000 shares be issued to Living Cities Creditors Trust or its nominee;
- (e) The new shares will rank equally with the existing shares;
- (f) No funds will be raised from the issue of the 800,000 shares; and
- (g) The date of allotment of the shares will be the same date on which they are issued.

### 2.3 Resolutions 3, 4 & 5 Allotment and Issue of new Shares to Leslie Szancer, Alexander Harmstorf and Christopher Anderson

The Resolutions are required to be approved by Shareholders in accordance with Item 7 of Section 611 of the Corporations Act. The 125 million shares are being issued to Leslie Szancer, Alexander Harmstorf and Christopher Anderson at an issue price of \$0.00359999997 to raise \$450,000.

**Table 1 – Maximum number of Shares which Leslie Szancer, Alexander Harmstorf and Christopher Anderson will hold after the allotment.**

Column 1	Column 2	Column 3
Name of allottee	Maximum number of Shares to be issued under Resolutions 3, 4 & 5	Maximum Voting power of Leslie Szancer, Alexander Harmstorf and Christopher Anderson
Leslie Szancer	41,666,667	27.96% (Approx)
Alexander Harmstorf	41,666,667	27.96% (Approx)
Christopher Anderson	41,666,666	27.96% (Approx)
TOTAL	125 million	83.89262% (Approx)

## **Section 611 of the Corporations Act**

Shareholder approval of Resolutions 3,4 and 5 is also required under Item 7 of Section 611 of the Corporations Act given Resolutions 3, 4 and 5 involves the issue of more than 20% of all Shares then on issue.

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

- (a) from 20% or below to more than 20%; or
- (b) from a starting point above 20% and below 90%.

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

The "associate" reference includes a reference to a person in concert with whom a primary person is acting or proposes to act.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

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

## **Chapter 2E of the Corporations Act and ASX Listing Rules 10.11, 10.13**

Section 208(1) of the Corporations Act requires that for a public company to give a financial benefit to a related party of the public company, it must either fall within certain exceptions or obtain shareholder approval. A related party includes a party that does or may control a public company. Accordingly, Leslie Szancer, Alexander Harmstorf and Christopher Anderson is a related party of the Company for the purposes of Chapter 2E of the Corporations Act.

Pursuant to Resolutions 3, 4 and 5 the company is seeking shareholder approval for the issue of 125 million shares to raise \$450,000.

The following information is provided:

- (a) The related parties are Leslie Szancer, Alexander Harmstorf and Christopher Anderson;
- (b) The maximum number of shares, being the nature of the financial benefits being provided to be issued, will be 125 million shares;
- (c) The shares will be issued no later than 1 month after the date of the meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules state;



- (d) The issue price will be \$0.00359999997 per share;
- (e) The funds raised will be used for the same purposes as all other funds raised under the capital raising as set out in Section 1.1.3 of this explanatory statement;
- (f) The shares issued under the capital raising will be fully paid ordinary shares in the capital of the company issued on the same terms and conditions as the company's existing shares;
- (g) The value of the financial benefit provided to each proposed director is calculated by the number of securities being issued to that proposed director multiplied by the issue price under the General Placement and is set out below:

<b>Securities</b>	<b>Value per Security</b>	<b>Financial Benefit</b>	<b>Amount Paid</b>
41,666,667 Shares	\$0.00359999997	\$150,000	\$150,000
41,666,667	\$0.00359999997	\$150,000	\$150,000
41,666,666	\$0.00359999997	\$150,000	\$150,000
<b>TOTAL</b> 125 million		\$450,000	\$450,000

The company has been suspended from trading since 7 April 2015 with the last trading price of the company prior to going into administration being \$0.12. It then went through a 1:40 consolidation.

The company will be issuing shares at \$0.0036 and the proposed directors therefore consider that \$0.0036 is a more appropriate valuation for the cost of the shares being issued, the subject of Resolution 3.

- (h) The current relevant interests of the proposed director in the securities of the company are set out below;

<b>Related Party</b>	<b>Shares</b>	<b>Options</b>
Mr Leslie Szancer	Nil	Nil
Mr Alexander Harmstorf	Nil	Nil
Mr Christopher Anderson	Nil	Nil

- (i) the remuneration and emoluments from the company to the proposed director for the previous financial year and the proposed remuneration and emoluments for the current financial year are set out below:

<b>Related Party</b>	<b>Financial Year ended 30 June 2017</b>	<b>Financial Year ended 30 June 2016</b>

Mr Leslie Szancer	\$36,000	Nil
Mr Alexander Harmstorf	\$36,000	Nil
Mr Christopher Anderson	\$36,000	Nil

- (j) The trading history of the shares on ASX in the 12 months before the date of this notice is set out below:

	Price	Date
Highest	0	26 April 2017
Lowest	0	26 April 2017
Last	0	26 April 2017

Shareholders should note that the company's securities were suspended from quotation on 7 April 2015 and remain suspended.

- (k) The primary purpose of the issue of the shares is to raise fresh capital and to allow the proposed directors to participate in the capital raising; and
- (l) none of the current directors have an interest in the outcome of Resolutions 3, 4 and 5. The directors do not make a recommendation because the company is subject to Deed of Company Arrangement. However, it is noted that the issue of shares to the proposed director's company might be regarded as aligning the interests of the proposed director with those of shareholders; and
- (m) the proposed directors and the Deed Administrators are not aware of any other information that would be reasonably required by shareholders to allow them to make a decision whether it is in the best interests of the company to pass Resolution 3, 4 and 5.

Approval pursuant to ASX Listing Rule 7.1 is not required for the participation as approval is being obtained under Item 7 of Section 611 of the Corporations Act and ASX Listing Rule 10.11. Accordingly, the issue of shares to the proposed director (or their respective nominees) will not be included in the use of the company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

***Information required by Item 7 of the Section 611 of the Corporations Act***

Also set out below are the matters required to be disclosed in accordance with Item 7(b) of Section 611 of the Corporations Act. Note Mr Szancer, Mr Harmstorf and Mr Anderson are acting in concert in terms of Section 228(7) of the Corporations Act, 2001. They will act together, and they will effectively control the company if the proposed resolutions are passed, (having approximately 83.892062%).

- (a) *the identity of the person proposing to make the acquisition and their associates:*

It is proposed that 41.667 million Shares be issued to Leslie Szancer as per Resolution 3 and 41.667 million shares to Alexander Harmstorf as per Resolution 4 and 41,667 million shares to Christopher Anderson as per Resolution 5. None of its associates have relevant interests in any Shares existing as at the date of this Notice.

- (b) *the maximum extent of the increase in that persons voting power in the company that would result from the acquisition:*

If Resolution 3, 4 and 5 are passed Leslie Szancer, Alexander Harmstorf and Christopher Anderson voting power in the Company will increase from 0% to 83.89262% (approx).

- (c) *the voting power that the relevant allottees would have as a result of the acquisition:*

If Resolutions 3, 4 and 5 are passed Leslie Szancer, Alexander Harmstorf and Christopher Anderson voting power in the Company will be 83.89262% (approx).

- (d) *the maximum extent of the increase in the voting power of each of the allottee's associates that would result from the acquisition.*

As Leslie Szancer, Alexander Harmstorf and Christopher Anderson have no associates holding any relevant interest in existing Shares there is no increase in its voting power in the Company as a result of the acquisition.

- (e) *the voting power that each of the allottee's associates would have as a result of the acquisition:*

As Leslie Szancer, Alexander Harmstorf and Christopher Anderson have no associates holding any relevant interest in existing shares, there is no increase in its voting power in the Company as a result of the acquisition.

#### **Other Required Information - ASIC regulatory Guide 74**

The following further information is disclosed:

- (a) The Company will review its current business activities. As part of this process, it is proposed that 3 New Directors will be elected to the Board. These elections form the subject of separate Resolutions. The current Directors and company secretary will be resign;
- (b) In accordance with the Recapitalisation Proposal, the Company intends to raise capital to:
- (i) pay for the DOCA and recapitalisation costs and expenses so as to remove the Company from Administration and to extinguish all debt of the Company; and
  - (ii) meet the administration and working capital costs of the Company.

The Company will have sufficient funds if all Resolutions are passed and share capital raised in order to meet the aims of the Recapitalisation Proposal;

- (c) There is no current intention to redeploy any other fixed assets of the Company or to change the Company's existing policies in relation to financial matters or dividends. At present, the Company does not pay a dividend. The dividend policy of the Company will be assessed in accordance with the future profitability of the Company's business; and
- (d) Leslie Szancer, Alexander Harmstorf and Christopher Anderson do not intend to inject further capital into the company.
- (e) Independent Expert's Report or IER is enclosed, and shareholders are urged to read it in full.

The Listing Rules and the Corporations Act provide that an independent expert's report on the transaction (as contemplated by Resolutions 3, 4 and 5) must be provided to Shareholders. The IER provides an opinion as to whether the acquisition of the voting power referred to in Resolutions 3, 4 and 5 and this section, is fair and reasonable to the non-associated Shareholders of the Company.

Accordingly, Benelong has commissioned Stantons International Securities to produce the IER as an independent expert. The IER is enclosed with the Notice and is attached to Annexure A.

Stantons International Securities has concluded that the acquisition of the voting power by Leslie Szancer, Alexander Harmstorf and Christopher Anderson as contemplated by Resolutions 3, 4 and 5 ("**Acquisition**") **is fair and reasonable to the Shareholders of the Company.**

The advantages and disadvantages of the Recapitalisation Proposal are outlined in the IER and are provided to enable non-associated Shareholders of the Company to determine whether they are better off if the Acquisition proceeds than if not.

Shareholders are urged to carefully read the IER in deciding how to vote on the Resolutions, particularly Resolutions 3, 4 and 5.

- (f) Leslie Szancer, Alexander Harmstorf and Christopher Anderson will only have a right to compulsorily acquire the shares of minority shareholders pursuant to Section 664C of the Corporations Act if they own more than 90%. However even if they were to later obtain 90%, they have no intention whatsoever to compulsorily acquire the shares of minority shareholders.

#### ***Other required information – ASIC Regulatory Guide 76***

The following further information is disclosed:

- (a) The related parties are proposed directors Leslie Szancer, Alexander Harmstorf and Christopher Anderson;
- (b) The nature of the financial benefit is the issue of 125 million Ordinary Shares in the capital of the Company as set out in this Explanatory Memorandum;
- (c) The Directors of the Company make no recommendation in relation to whether Shareholders should or should not vote in favour of the Resolution;
- (d) No Directors have an interest in the outcome of the Resolution
- (e) All other information that is reasonably required by Shareholders to decide whether or not it is in the Company's interests to pass a resolution and that is known to the Company is set out in this Explanatory Memorandum and in the Independent Expert's Report.

#### ***Directors' Recommendations***

As the Company is subject to the DOCA, and as the existing Directors of the Company have not participated in the decision making with regard to the Recapitalisation Proposal, the existing Directors of the Company do not make any recommendation in respect of the Recapitalisation proposal. Shareholders should read this Statement in full, including the Letter, and the IER, to form an opinion on the merits of the Recapitalisation Proposal.

### ***Pro forma Consolidated Balance Sheet***

Set out below is a statement of financial position of the Company based on the Administrators records as at August 2016, and compiled by Mr Steve Nicols, together with the pro forma balance sheet as at April 2017 if all Resolutions are passed, (compiled by Mr Steve Nicols).

	Unaudited Estimated Statement of Financial Position As at August 2016 \$	Pro-forma Statement of Financial Position after Resolutions passed \$
<b>Current Assets</b>		
Cash assets	55,000	35,000 *See Note 1
Debtors	8,000	0
Plant & Equipment	6,000	0
	<hr/>	<hr/>
Sub Total	69,000	35,000
<b>Non Current Assets</b>		
Interests in Subsidiaries	0	0
Mining Tenement	600,000	0
	<hr/>	<hr/>
Total Assets	669,000	35,000
	<hr/>	<hr/>

The Administrators records indicate current assets of \$69,000, however after the payment of Administrators Remuneration, and costs, the net result will be nil.

The Administrators records and ASX announcements indicate the company entered into an Option Deed for the potential sale of the "Yogi" tenements. If the sale proceeds, the Creditors Trust will keep any such proceeds, not the recapitalised "LCG" company.

**Liabilities**Trade creditors; employees;  
Secured creditor

(4,377,490)

0

Total Current Liabilities

(4,377,490)

0

Net Deficiency/Surplus

(3,708,490)

\$35,000

=====

=====

**Equity**

Issued Capital

19,700,333

19,735,333 See Note 2

Accumulated Losses

(23,408,823)

(19,700,333) See Note 3

Reserves

0

0

Total Equity

(3,708,490)

35,000

=====

=====

**Note 1**

The movement in the cash assets is reconciled as follows:

Cash assets:

\$

Opening Balance

0

Placement of shares at \$0.00359999997 each \$450,000

Placement of shares at \$0.00008362108 each \$ 1,000

DOCA, Recapitalisation Costs

(416,000)

Closing balance (estimated)

\$ 35,000

=====

**Note 2**

The movement in the issued capital reconciled as follows:

Issued Capital:

\$

Opening Balance

19,700,333

Placement of shares at \$0.0036 each

450,000

Placement of shares at \$0.00008362108 each

1,000

DOCA, Recapitalisation Costs

(416,000)

Closing balance (estimated)

19,735,333

=====

**Note 3**

Creditors claims reduced via DOCA settlement.

**Prior Financial Position**

The company's last set of financial statements were for the half year ending 31 December 2015, and were lodged on ASX on 9 March 2016. The assets disclosed therein have since been subject to sale by the Administrator.

## **2.4 Resolution 6 Allotment and Issue of new Shares to Benelong Capital Partners Pty Ltd**

This Resolution is required to be approved by Shareholders in accordance with ASX Listing Rule 7.1 and Resolution 6, seeks approval for the issue of 11,958,706 shares to Benelong Capital Partners Pty Ltd or its nominee at an issue price of \$0.00008362108 to raise \$1,000.00.

### **ASX Listing Rules**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of ordinary shares on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issuer has the prior approval of Shareholders in general meeting.

### **Information required by ASX Listing Rules**

- (a) The following information is provided to Shareholders in accordance with Listing Rule 7.3 for the purpose of obtaining shareholder approval under Listing Rule 7.1 for Resolution 6:
- (b) The maximum number of shares to be issued by the Company to Benelong Capital Partners Pty Ltd or its nominee is 11,958,706 shares at an issue price of \$0.00008362108 to raise \$1,000.00.
- (c) It is anticipated that the issue of the shares will occur on one date and will not be later than three months after the date of the meeting;
- (d) It is proposed that the 11,958,706 shares be issued to Benelong Capital Partners Pty Ltd or its nominee;
- (e) The new shares will rank equally with the existing shares;
- (f) The funds raised from the issue of the shares will be used in accordance with the Recapitalisation Proposal and for the purposes set out in Section 1.1.3 of this Statement; and
- (g) The date of allotment of the shares will be the same date on which they are issued.

## **2.4 Resolutions 7, 8 to 9 – Election of New Directors and a New Company Secretary**

The Recapitalisation Proposal provides for the appointment of a new Board consisting of Leslie Szancer, Alexander Harmstorf and Christopher Anderson, Resolutions 7, 8 and 9 seek to achieve this.

The curriculum vitae of each New Director is provided in Section 1.3.

## **2.5 Resolution 10 - Change of Name**

Pursuant to section 157(1) of the Corporations Act, Resolution 10 is a **special Resolution** which seeks the approval of Shareholders to change the name of the Company to "Birrabong Corporation Limited".

The New Directors believe that this new name is more appropriate for the Company. The change of name will not, in itself, affect the legal status of the Company or any of its assets or liabilities.

To pass a special Resolution, 75% of Shareholders attending and entitled to vote at a meeting must approve the Resolution. Section 157(1) of the Corporations Act requires, amongst other things, a company to pass a special Resolution adopting a new name if it wants to change its name. The Company will apply to ASIC for the change of name which will take effect upon a new certificate of registration being issued.

### **3. ENQUIRIES**

Shareholders are invited to contact Mr Steve Nicols of Benelong Capital Partners Pty Ltd on phone +61 2 9299 2289 if they have any queries in respect of the matters set out in these documents.



## **TIME AND PLACE OF MEETING AND HOW TO VOTE**

### **Venue**

A General Meeting of the shareholders of Living Cities Development Group Limited (Subject to Deed of Company Arrangement) will be held at 11.00am on Wednesday 31 May 2017 at:-

Nicols and Brien  
Level 2  
350 Kent Street  
SYDNEY NSW 2000  
AUSTRALIA  
Phone +61 2 9299 2289

### **How to Vote**

You may vote by attending the Meeting in person, by proxy or authorised representative.

#### **Voting in Person**

To vote in person, attend the Meeting on the date and at the place set out above. The Meeting will commence at 11.00 a.m. (Sydney Time).

#### **Voting by Proxy**

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of General Meeting as soon as possible and either:

- send the proxy by facsimile to the Company on facsimile number (International: + 61 2 9299 2239); or
- deliver the proxy to the Company at c/- Nicols and Brien, Level 2, 350 Kent Street, Sydney, New South Wales, Australia.

so that it is received not later than 11.00am (Sydney Time) on Monday 29 May 2017.

**Your proxy form is enclosed.**

## GLOSSARY

**Administrators** mean Antony Resnick, David Solomons and Riad Tayeh of De Vries Tayeh, Level 2, 151 Macquarie Street, Sydney, NSW, 2000.

**ASIC** means Australian Securities and Investments Commission.

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

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

**Benelong** means Benelong Capital Partners Pty Ltd (ACN 145 496 233)

**Benelong Capital Contribution** means the sum of \$335,000 required to be paid by Benelong under the DOCA

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

**Company** means Living Cities Development Group Limited (Subject to Deed of Company Arrangement) (ABN 14 074 009 091).

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

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

**Creditor** means a creditor of the Company as at the date of the Notice.

**Creditor's Trust** means the trust to be established in accordance with the terms of the Recapitalisation Proposal and the DOCA for the purpose of satisfying approved Creditor's claims.

**Deed Administrators** means Antony Resnick, David Solomons and Riad Tayeh of De Vries Tayeh, Level 2, 151 Macquarie Street, Sydney, NSW, 2000, so appointed under the DOCA.

**Deed of Company Arrangement or DOCA** means the Deed of Company Arrangement between Benelong, Deed Administrators and the Company Dated 17 August 2016 and includes any variation to such.

**Director** means a director of the Company.

**Dollar or \$** means Australian dollars.

**Explanatory Statement** or **Statement** means the explanatory statement to the Notice of General Meeting.

**Glossary** means this glossary.

**Independent Expert's Report or IER** means the Independent Expert's Report prepared by Stantons International Securities and contained in Annexure A to the Notice.

**Meeting** means the general meeting of the Shareholders convened by the Notice to be held on 31 May 2017.

**New Directors** means the Directors to be appointed under Resolutions 7, 8 and 9.

**Notice** means this notice of general meeting of the Shareholders in respect of the Meeting to be held on 31 May 2017.

**Recapitalisation Proposal** means the Recapitalisation Proposal submitted by Benelong to the Deed Administrators dated 1 July 2016 relating to the restructure and recapitalisation of the Company.

**Resolutions** means the resolutions described in the Notice.

**Shareholder** means the holder of Shares.

**Shares** means ordinary class shares in the capital of the Company.

**Sydney Time** means time in Sydney NSW from time to time.

**Trustees** means Trustee of the Creditors Trust, being Antony Resnick, David Solomons and Riad Tayeh, or Corporate Trustee related to them.

**PROXY FORM  
APPOINTMENT OF PROXY  
LIVING CITIES DEVELOPMENT GROUP LIMITED  
(Subject to Deed of Company Arrangement)  
ABN 14 074 009 091**

**GENERAL MEETING**

I/We

being a Member of Living Cities Development Group Limited (Subject to Deed of Company Arrangement) entitled to attend and vote at the Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the General Meeting to be held at Nicols and Brien, Level 2, 350 Kent Street, Sydney, New South Wales on Wednesday 31 May 2017 and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the resolutions.

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**Voting on Business of the General Meeting**

	FOR	AGAINST	ABSTAIN
Resolution 1 Allotment and Bonus Issue of Shares to Existing Shareholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Allotment and Issue of Shares to Living Cities Creditors Trust	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Allotment and Issue of Shares to Leslie Szancer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Allotment and Issue of Shares to Alexander Harmstorf	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Allotment and Issue of Shares to Christopher Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 Allotment and Issue of Shares to Benelong Capital Partners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 Appointment of Mr Leslie Szancer as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 Appointment of Mr Alexander Harmstorf as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9 Appointment of Christopher Anderson as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10 Change of Name (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**OR**

If you do **not** wish to direct your proxy how to vote, please place a mark in this box

☐

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. The Chairman will vote in favour of all of the resolutions if no directions are given.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents \_\_\_\_\_ %

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_\_

Individuals and joint holders    Companies (affix common seal if appropriate)

Signature

Director

Signature

Sole Director and Sole Company Secretary

## Instructions for Completing 'Appointment of Proxy' Form

1. A Shareholder entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a Shareholder of the Company. In the case of joint holders, all must sign.
3. Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
  - 2 directors of the company;
  - a director and a company secretary of the company; or
  - For a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.
6. You may fax the Proxy form to: Facsimile No. +61 2 9299 2239 or mail to Benelong Capital Partners Pty Ltd, Level 2, 350 Kent Street, Sydney NSW 2000.
7. The instrument appointing the proxy must be received by the Company at the address specified above at least forty eight (48) hours before the time notified for the meeting (proxy forms can be lodged by facsimile).
8. Any questions, please call Steve Nicols on phone +61 2 9299 2289, or email to [steve@benelongcapitalpartners.com](mailto:steve@benelongcapitalpartners.com)

**ANNEXURE A**

**INDEPENDENT EXPERT'S REPORT BY STANTONS INTERNATIONAL SECURITIES**

26 April 2017

The Directors  
Living Cities Development Group Limited  
(Subject to a Deed of Company Arrangement)  
C/- Benelong Capital Partners Pty Ltd  
Level 2, 350 Kent Street  
SYDNEY NSW 2000

### Summary of Opinion

For the purposes of Section 611 (item 7) of TCA, in relation to the approval to issue a total of 41,666,667 shares to each of Szancer and Harmstorf and 41,666,666 shares to Anderson (125,000,000 shares in total), in our opinion, taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 8 of this report, the proposals as outlined in paragraph 1.3 and Resolutions 3, 4 and 5 respectively may be considered to be fair and reasonable to the non-associated shareholders at the date of this report.

Dear Sirs

**RE: LIVING CITIES DEVELOPMENT GROUP LIMITED (ABN 14 074 009 091 ("LCG" OR "THE COMPANY") MEETING OF SHAREHOLDERS PURSUANT TO SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT 2001 ("TCA") RELATING TO THE PROPOSAL TO ISSUE 41,666,667 SHARES TO LESLIE SZANCER ("SZANCER"), 41,666,667 SHARES TO ALEXANDER HARMSTORF ("HARMSTORF") AND 41,666,666 SHARES TO CHRISTOPHER ANDERSON ("ANDERSON").**

### 1. Introduction

- 1.1 We have been requested by Steve Nicols of Benelong Capital Partners Pty Ltd ("Benelong") to prepare an Independent Expert's Report to determine the fairness and reasonableness relating to the proposals as set out in Resolutions 3, 4 and 5 of the Notice of Meeting ("the Notice") to be disseminated to shareholders of LCG in late April 2017 or early May 2017.

Under the proposals put forward by LCG and Benelong (also described as the Promoter) Messrs Szancer, Harmstorf and Anderson (refer below), would increase their shareholdings from a starting point that is nil to a shareholding in a recapitalised LCG of in excess of 20%.

- 1.2 Further details on Szancer, Harmstorf and Anderson are noted in Sections 1.1.4 and 1.3 of the Explanatory Statement ("ES") attached to the Notice that outlines the resolutions being put to the shareholders of LCG.
- 1.3 Resolution 3, which is subject to the passing of Resolutions 1, 2 and 4 to 9 relates to the approval for the Company to allot and issue 41,666,667 shares at an issue price of 0.359999997 cents to raise a gross \$150,000 to Szancer, whilst Resolution 4 which is subject to the passing of Resolutions 1 to 3 and 5 to 9 relates to the approval for the Company to allot and issue 41,666,667 shares at an issue price of 0.3659999997 cents to raise a gross \$150,000 to Harmstorf and Resolution 5 which is subject to the passing of Resolutions 1 to 4 and 6 to 9 relates to the approval for the Company to allot and issue 41,666,666 shares at an issue price of 0.3659999997 cents to raise a gross \$150,000 to Anderson.



Messrs Szancer, Harmstorf and Anderson are associated with AXL Capital Partners Pty Ltd ("AXL"), a company involved in equity markets. In total \$450,000 is to be raised from Szancer, Harmstorf and Anderson and they are in effect acting in concert for the purposes of this report.

For the purposes of this report we refer to Szancer, Harmstorf and Anderson collectively as the Subscribers.

1.4 In addition, as part of the recapitalisation proposal, there are the following additional resolutions:

- Resolution 1 relates to the allotment and issue of 5,620,647 fully paid bonus shares to the existing shareholders of LCG on a 1 for 1 basis;
- Resolution 2 relates to the allotment and issue of 800,000 fully paid shares to the LCG creditors (issued to the Living Cities Creditors Trust) for \$nil consideration;
- Resolution 6 relates to the issue of 11,958,706 fully paid ordinary shares to Benelong (or nominee) at an issue price of 0.00008362108 to raise \$1,000;
- Resolutions 7, 8 and 9 relate to the election of Leslie Szancer, Alexander Harmstorf and Christopher Anderson respectively as directors of the Company; and
- Resolution 10, relates to the change of name for the Company to Birrabong Corporation Limited.

We are not reporting on the fairness and reasonableness of Resolutions 1, 2 and 6 to 10. This report specifically addresses Resolutions 3, 4 and 5 only. However, we note that all of the other resolutions are all part of the recapitalisation proposal of LCG. Resolutions 1 to 9 are dependent on passing all of the resolutions (except Resolution 10). Further details on the resolutions are included in the ES.

1.5 We understand that the proposal with Benelong and the Subscribers also includes the following:

- Pay the Living Cities Creditors Trust the sum of \$335,000;
- Issue 800,000 shares to the Living Cities Creditors Trust.

In the event that the recapitalisation proposal is consummated, the Company would have approximately \$35,000 net cash funds, it would review all of the remaining ventures the Company may have and seek new business opportunities. The Company will not have its shares re-quoted on ASX until it complies with Chapters 1 and 2 of the Listing Rules of ASX.

1.6 The proposed issue of a total of 125,000,000 shares to the Subscribers (41,666,667 to each of Szancer and Harmstorf and 41,666,666 shares to Anderson) is referred to in this report as the Subscription for a total capital raising of a gross \$450,000 as noted above and in the ES.

1.7 As at the date of this Notice, the Subscribers have no relevant interests in any shares in LCG.

1.8 Following the consummation of the resolutions relating to the issue of new shares, the following table depicts the new share structure of the Company. Section 1.1.4 of the ES refers to the shareholding details if all resolutions are passed and consummated. The total number of shares on issue would be 149,000,000 as detailed in the following table.

	Existing shareholders/ New shareholders other than the Subscribers	Maximum No. of Shares to be issued to the Subscribers pursuant to Resolutions 3, 4 and 5	% held by the Subscribers	Total
Existing shareholders	5,620,647	-	-	5,620,647
Bonus issue of shares to existing	5,620,647	-	-	5,620,647

	Existing shareholders/ New shareholders other than the Subscribers	Maximum No. of Shares to be issued to the Subscribers pursuant to Resolutions 3, 4 and 5	% held by the Subscribers	Total
shareholders (Resolution 1)				
Issue to Creditors Trust (Resolution 2)	800,000	-	-	800,000
Issue to Szancer (Resolution 3)	41,666,667	41,666,667	27.964	41,666,667
Issue to Harmstorf (Resolution 4)	41,666,667	41,666,667	27.964	41,666,667
Issue to Anderson (Resolution 5)	41,666,666	41,666,666	27.964	41,666,666
Issue to Benelong Capital Partners (Resolution 6)	11,958,706	-	-	11,958,706
<b>Total shares on issue before any further share issues</b>	<b>149,000,000</b>	<b>125,000,000</b>	<b>83.892</b>	<b>149,000,000</b>

There are no options in total over the shares of LCG.

- 1.9 The above recapitalisation is subject to the Company obtaining necessary shareholder approvals and any ASX regulatory re-quotation approvals.
- 1.10 Under Section 606 of TCA, a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that person's or someone else's voting power in the company increases:
- (a) from 20% or below to more than 20%; or
  - (b) from a starting point that is above 20% and below 90%.

Under Section 611 (Item 7) of TCA, section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. An independent expert is required to report on the fairness and reasonableness of the transaction pursuant to a Section 611 (Item 7) meeting.

- 1.11 The Subscribers currently hold no shares in LCG. Following completion of the recapitalisation and the other proposals noted in paragraph 1.3 above and in the Notice, the Subscribers would own a total of 125,000,000 shares in LCG representing approximately 83.892% of the then shares on issue. There would be 149,000,000 LCG shares on issue. Szancer would own 41,666,667 shares, Harmstorf would own 41,666,667 shares and Anderson would own 41,666,666 shares that represents an approximate 27.964% each in the expanded share capital of LCG.
- 1.12 A notice prepared in relation to a meeting of shareholders convened for the purposes of Section 611 (Item 7) of TCA should be accompanied by an independent expert's report stating whether it is fair and reasonable to approve the issue of 41,666,667 shares to Szancer (Resolution 3), 41,666,667 shares to Harmstorf (Resolution 4) and 41,666,666 shares to Anderson (Resolution 5).

To assist shareholders in making a decision on the proposals outlined in the Notice, (and in particular Resolutions 3, 4 and 5 relating to the issue of shares to the Subscribers), the Administrators have requested that Stantons International Securities Pty Ltd prepare an Independent Expert's Report, which must state whether, in the opinion of the Independent Expert, the proposals under Resolutions 3, 4 and 5 are fair and reasonable to the non-associated shareholders of LCG.

1.13 We are not reporting on the fairness and reasonableness of the other resolutions referred to in the Notice and ES, other than Resolutions 3, 4 and 5 as outlined above.

1.14 Apart from this introduction, this report considers the following:

- Summary of opinion
- Implications of the proposals with the Subscribers
- Corporate history and nature of business
- Future direction of LCG
- Basis of valuation of LCG shares
- Premium for control
- Fairness of the Proposals
- Conclusion as to fairness
- Reasonableness of the Proposal
- Conclusion as to reasonableness
- Sources of information
- Appendix A and Financial Services Guide

1.15 In determining the fairness and reasonableness of the transactions pursuant to Resolutions 3, 4 and 5 we have had regard to the definitions set out by the Australian Securities and Investments Commission ("ASIC") in its Regulatory Guide 111, "Content of Expert Reports". The Regulatory Guide 111 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness). The concept of "fairness" is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above-mentioned offer. Furthermore, this comparison should be made assuming 100% ownership of the "target" and irrespective of whether the consideration is scrip or cash.

An offer is "reasonable" if it is fair. An offer may also be reasonable, if despite not being "fair", there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer. It also states that, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to Section 611 (Item 7) of TCA, it is desirable to commission a report by an independent expert stating whether or not the proposal is fair and reasonable, having regards to the proposed allottees and whether a premium for potential control is being paid by the allottees. Regulatory Guide 111 also provides that such an allotment should involve a comparison of the advantages and disadvantages likely to accrue to non-associated shareholders if the transactions proceed compared with if they do not.

1.16 Accordingly, our report in relation to Resolutions 3, 4 and 5 comprising the approval to issue a total of 125,000,000 shares to the Subscribers is concerned with the fairness and reasonableness of the proposals with respect to the existing non-associated shareholders of LCG and whether the Subscribers are paying premiums for control.

#### **Summary of Opinion**

1.17 For the purposes of section 611 (item 7) of TCA, the proposals in relation to the approval to issue a total of 125,000,000 shares as set out in Resolutions 3, 4 and 5 respectively is in our opinion taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 8 of this report, be considered to be fair and reasonable to the non-associated shareholders at the date of this report.

1.18 Each shareholder needs to examine the share price of LCG (but currently suspended from trading), market conditions and announcements made by LCG up to the date of the shareholders meeting at the time of exercise of vote to ascertain the impact, if any, on Resolutions 3, 4 and 5. The opinion expressed above must be read in conjunction with the more detailed analysis and comments made in this report.

## 2. Implications of the Proposals

- 2.1 As at 26 April 2017, there are 5,620,647 ordinary fully paid shares on issue in LCG. Post the implementation of all of the recapitalisation proposals, the number of shares may increase to 149,000,000 shares as set out in paragraph 1.8 above.

Further details on the shares that could be on issue and the shareholding interests of the individual Subscribers and other parties are noted in Section 1 of this report and in the Proposed Capital Structure Table in Section 1.1.4 of the ES and in Section 2.3 of the ES attached to the Notice.

- 2.2 Pursuant to Resolutions 3, 4 and 5 the Company will raise a gross \$450,000 on the issue of 125,000,000 Subscription Shares at an issue price of 0.359999997 cents per share. Following the issue of Subscription Shares and assuming the issue of shares pursuant to Resolutions 1, 2 and 6, the Subscribers combined shareholding will increase from nil% to approximately 83.892% (Szancer, Harmstorf and Anderson approximately 27.964% each).
- 2.3 The estimated costs of the Notice for the Meeting of Shareholders and other recapitalisation costs (including the DOCA costs and Deed repayment) will be approximately \$416,000 (including the payment of \$335,000 to the Living Cities Creditors Trust).
- 2.4 The recapitalisation proposal provides that from the date of the Meeting, the Board is likely to include Messer's Szancer, Harmstorf and Anderson (Resolutions 7, 8 and 9 seeks to ratify the election of such directors). Existing Directors and the existing Company Secretary will be replaced as Directors and Company Secretary as part of the Recapitalisation proposal.
- 2.5 Set out below is an estimated unaudited statement of financial position of the Company as at July 2016 as noted in the Circular to Creditors of July 2016 together with the pro-forma balance sheet (statement of financial position) adjusted to include the transactions assuming all resolutions are passed and consummated.

	Estimated Statement of Financial Position* \$	Statement of Financial Position after Resolutions 1 to 10 passed \$
<b>Current Assets</b>		
Cash Assets	55,000	35,000
Receivables	8,000	-
Total current assets	63,000	35,000
<b>Non-Current Assets</b>		
Interest in mining tenements (refer below)	600,000	-
Plant and other assets	6,000	-
Total non-current assets	606,000	-
Total Assets	669,000	35,000
<b>Liabilities</b>		
Trade Creditors and Accruals	4,377,490	-
Total Current Liabilities	4,377,490	-
Net Assets/ (Liabilities)	(3,708,490)	35,000

## Stantons International Securities

<b>Equity</b>		
Issued Capital	19,700,733	19,735,333
Reserves	-	-
Accumulated Losses	(23,409,223)	(19,700,333)
Total Equity/(Deficiency)	(3,708,490)	35,000
Shares on issue	5,620,647	149,000,000
Net assets/(liabilities) per share (cents)	(65.97)	0.0234

We have read the Administrators Circular to Creditors and note that no offers have been made to purchase the Company as a shell company. We note that the Administrators recommended the Benelong proposal to recapitalise the Company. It is noted that values of shell companies vary considerably but for small cap companies may vary between \$250,000 and \$500,000. However, it is noted that the Company cannot sell itself and parties are only prepared to place funds in a company shell on the back of a firm proposal (as is the case with LCG). The amount payable is dependent on a number of factors including shareholder spread, ASX compliance matters and extent of debt amongst many factors. In our view a Company such as LCG may have a shell value not exceeding \$300,000 but realistically this would be based on the premise that the Company has no or very minimal debt. LCG has net liabilities and will need to comply with ASX Listing Rules (Chapters 1 and 2) in order to have its shares requested. This can be a difficult exercise and no guarantee that it can occur. The raising of an initial gross \$451,000 will not be enough to ensure meeting ASX Listing Rules for re-quotation.

In the event that a notional value was ascribed to the Company as a shell company of \$300,000, the value per share would be 5.337 cents on a post recapitalisation basis. However, we consider this is misleading as no investor(s) would pay for a controlling interest in LCG without a firm recapitalisation proposal that not only assumes the investor(s) would place funds in LCG but would assume further investors would place funds in LCG to recapitalise the Company (at least to the extent of sufficient funds to pay out creditors) and have some sufficient working capital to explore new business opportunities, and probably seek ASX quotation, that as noted elsewhere in this report, has quite a challenge attached to it.

### Note 1

The movement in the cash assets is reconciled as follows:

#### Cash Assets:

Opening Balance	55,000
Collection of receivables and plant and other assets	8,000
Transfer to the Creditors Trust per the DOCA	(63,000)
Placements of 125,000,000 Subscription Shares (Resolutions 3, 4 and 5)	450,000
Repayment of creditors/DOCA Costs	(335,000)
Placement of 11,058,706 shares to Benelong (Resolution 6)	1,000
Payment of recapitalisation costs	(81,000)
Net cash on hand	35,000

Note 2

The movement in the issued capital is reconciled as follows:

	\$
Issued Capital:	
Opening Balance	19,700,333
Placement of shares pursuant to Resolutions 1 and 2	-
Placement of shares to Subscribers (Resolutions 3, 4 and 5)	450,000
Placement of shares to Benelong (Resolution 6)	1,000
Costs of Notice and recapitalisation	(416,000)
Closing balance (estimated)	<u>19,735,333</u>

We have been advised by the Directors, that the most recent available set of reviewed financial statements of the Company is for the half year ended 31 December 2015 (released on the ASX in March 2016). The estimated statement of financial position as at July 2016 and referred to in the Circular to Creditors of July 2016 has not been audited or audit reviewed by Stantons International Securities Pty Ltd.

On 29 June 2016, the Company announced that in accordance with its previous stated intention, approved by shareholders in November 2015, it had entered into an Option Deed for the potential sale of the Yogi tenement package, located 14km east of Yalgoo in the Mid-West region of Western Australia. The counterparty to the option ("the Option") is F1 Joint Venture Pty Ltd ("F1JV") and the basic terms of the Option Deed are:

- A \$40,000 Option Fee will be paid that the Company is obliged to apply to the tenement rental costs;
- F1JV will fund, at its own cost, exploration activities that commenced immediately, including site and test work activities;
- The F1JV has 12 months (until 30 June 2017) to determine if it will exercise the Option and purchase the Yogi tenement package or the Option will otherwise lapse;
- The sale price upon exercise of the Option to purchase Yogi will be \$600,000;
- If the Option is not exercised by 30 September 2016, the F1JV will also take over responsibility for certain other holding costs in respect of the Yogi tenements;
- Also from 30 September 2016, the sale price, upon exercise, will increase by \$6,000 a calendar quarter until exercised; and
- F1JV can withdraw from the Option at any time during the 12-month Option period provided certain exploration activities have been completed.

The Option Deed arrangement provided for the continued exploration of the Yogi tenement package and if the Option is exercised, the Company will secure the asking price that it sought, which is the carrying value of the Yogi tenements in the Company's accounts.

As part of the recapitalisation proposal put forward by Benelong, any benefits under the Option Deed are to be transferred to the Living Cities Creditors Trust for the benefit of creditors and not the restructured LCG.

### **3. Corporate History and Nature of Business**

- 3.1 The Company was incorporated on 16 May 1996, and was admitted to the Official List of the ASX on 27 July 2006. The Company's business was as an iron ore explorer which at the time of its listing focused on the area 14 kilometres east of Yalgoo that is known as the Yogi deposit. The company subsequently attempted to diversify into gold exploration and a haematite iron ore project but experienced ongoing difficulties due to the downturn in the resources sector generally. Due to the holding costs the company was progressively forced to surrender its gold tenements, hand back its haematite project interest and put the Yogi project up for sale. The original purchaser of the Yogi project subsequently defaulted and the company efforts to undertake a reconstruction process were unsuccessful. Refer above in relation to the Option Deed.

On 7 April 2015, the Company's Shares were suspended from quotation on the official list of the Australian Securities Exchange. The Company planned to enter into land and building development in China and as part of the process to move from mineral exploration to land and building development in China undertook a 1 for 40 consolidation of capital and planned a capital raising of up to \$5.5 million and planned to convert \$1.95 million of debt to share equity. However, ASX rejected the Company's application to re-list as a land and building developer and thus such plans were cancelled. On 1 July 2016 Administrators were appointed to the company.

#### ***Future Business***

The proposed new Directors will seek out opportunities in other industries with a view to enhancing shareholder value. Any significant change in the nature of Company's activities will require shareholder approval under Listing Rule 11.

- 3.2 A summarised unaudited statement of financial position of LCG post ratification of Resolutions 1 to 10 is outlined in paragraph 2.3 of this report.

### **4. Future Directions of LCG**

- 4.1 We have been advised that the initial proposals are to:

- Complete all the proposals as noted in the resolutions in the Notice and raise \$451,000 from the Subscribers and Benelong. These funds will be used to pay \$335,000 for the DOCA to extinguish creditors, pay for the recapitalisation costs, provide funds for the consideration of opportunities as identified by the Company and to meet future costs and expenses of the Company such as accounting and auditing expenses;
- Composition of the Board of directors of LCG will change in the near future as outlined in paragraph 2.4; and
- No dividend policy has been set and it is not proposed to be set until such time as the Company is profitable and has a positive cash flow.

If Resolutions 1 to 10 are passed together with the completion of the recapitalisation proposal, the Company's chances to continue to investigate opportunities are enhanced as without the recapitalisation, it is likely that the Company may be dissolved and struck off. However, in the short term the re-quotation of the Company's shares on ASX is unlikely as the Company will need to meet Chapters 1 and 2 of the ASX Listing Rules. The Company would need to find a new business and raise additional funds so that it could meet the Listing Rules.

## **5. Basis of Valuation of LCG**

### **5.1 Shares**

5.1.1 In considering the proposals as outlined individually and collectively in Resolutions 3, 4 and 5, we have sought to determine whether the issue price of the subscription shares to the Subscribers (or their nominees) is in excess of the current fair value of the shares in LCG on issue and whether the proposed Subscriptions are at a price that LCG could make to unrelated third parties and then conclude whether the proposals are fair and reasonable to the existing non-associated shareholders of LCG.

5.1.2 The valuation methodologies we have considered in determining a theoretical value of a LCG share are:

- capitalised maintainable earnings/discounted cash flow;
- takeover bid - the price at which an alternative acquirer might be willing to offer;
- adjusted net asset backing and windup value; and
- the recent market prices of LCG shares.

### **5.2 Capitalised maintainable earnings and discounted cash flows**

5.2.1 LCG in its own right does not have a reliable cash flow or profit history from a business undertaking (the majority of its production assets are located in the subsidiary, which is not part of the recapitalisation process) and therefore this methodology is not considered to be appropriate. The Company entered into Administration in July 2016 and since then has been looking for new options to recapitalise the Company.

### **5.3 Takeover Bid**

5.3.1 It is possible that a potential bidder for LCG could purchase all or part of the existing shares, however no certainty can be attached to this occurrence. Currently the Company does not have sufficient funds to repay its creditors. In the view of the Board, the recapitalisation proposal is the most appropriate for the Company. However, if all of the 125,000,000 Subscription Shares are issued, the Subscribers would control approximately 83.892% of the expanded ordinary issued capital of the Company (Szancer, Harmstorf and Anderson approximately 27.964% each).

### **5.4 Adjusted Net Asset Backing**

#### **Net asset backing and windup value**

5.4.1 As noted above prior to the recapitalisation proposal, LCG has little cash or other assets and nil business activities (due to being in Administration) except for the potential sale of the Yogi tenements (that under the recapitalisation proposal would be for the benefit of the creditors). The net asset backing is nil as there is a net liability position of approximately \$3.708 million. On a windup basis, the return to shareholders arguably is nil (refer paragraph 2.3 of this report) as the liabilities exceed the negligible assets of the Company.

It is noted that values of shell companies vary considerably but for small cap companies may vary between \$250,000 and \$500,000 (assuming no or immaterial debt). However, it is noted that the Company cannot sell itself and parties are only prepared to place funds in a company shell on the back of a firm proposal (as is the case with LCG). The amount payable is dependent on a number of factors including shareholder spread, ASX compliance matters and extent of debt amongst many factors. In our view a Company such as LCG may have a shell value not exceeding \$300,000 (on the assumption that all debt was eliminated). We have conducted a number of expert's reports involving companies being recapitalised and in all cases the "shell value" was based on no or minimal debt. In view of a poor market and lack of investor sentiment for small cap companies over the past several years, a potential "shell value" may be on the lower side of the above range.



LCG has significant debts and even if a value of \$300,000 was attributed to the Company, debts still exceed a potential shell value. Shell value is only paid for on the basis of a recapitalisation proposal and not in isolation.

In addition, the Company will need to comply with ASX Listing Rules (Chapters 1 and 2) in order to have its shares relisted. This can be a difficult exercise and no guarantee that it can occur. The raising of \$451,000,000 will not be enough to ensure meeting ASX Listing Rules for re-quotation.

We reiterate that "shell value" is dependent on a commercial recapitalisation proposal and if shareholders do not approve the recapitalisation proposal involving the Subscribers and Benelong or a more superior offer (made before shareholders' vote on Resolutions 1 to 11), then shell value does not exist.

It is our understanding that the Company received other offers of recapitalisation but were not as beneficial or commercial to shareholders as the recapitalisation proposal of Benelong that will involve the Subscribers.

In the absence of a recapitalisation proposal, returns to shareholders are nil (and creditors are not repaid in full).

In the absence of a commercial recapitalisation (such as proposed by Benelong, involving the Subscribers), eventually, the major creditors and shareholders would withdraw support to keep LCG alive and it would then be placed into liquidation.

- 5.4.2 Purely based on the net cash value of LCG following the issue of the 125,000,000 Subscription Shares to the Subscribers (pursuant to Resolutions 3, 4 and 5), the net assets would be disclosed at approximately \$35,000 (assuming the Company raises \$451,000,000 as noted above) which would be equivalent to approximately 0.0234 cents per share, assuming 149,000,000 shares would be on issue (inclusive of Resolutions 1 to 6 also being consummated). This compares with the estimated current net value of a LCG share of nil cents as noted elsewhere in this report (but recognising it may have some value as a shell company if all debts were eliminated). The Company has a deficiency in shareholders' funds and if placed into liquidation shareholders would receive nil value.

## **5.5 Market price of LCG shares**

- 5.5.1 As the Company has been suspended from the ASX since 7 April 2015, we do not believe it is appropriate to value a LCG share based on prior quoted prices of LCG shares on the ASX.

### **Summary conclusion on value of a share in LCG**

- 5.6 After taking into account the matters referred to in the preceding paragraphs, we are of the view that the current theoretical value of a LCG share (prior to the recapitalisation proposal) is nil cents (notwithstanding a potential share value that is dependent on a firm recapitalisation proposal and all debts eliminated). As disclosed above the Company has no material assets with minimal business activities.
- 5.7 If the issue of the 149,000,000 Subscription Shares to the Subscribers is finalised as noted in Resolutions 3, 4 and 5 and the Resolution 5 proposal is consummated raising a further \$1,000 by way of the issue of 11,958,706 shares to Benelong (plus shares issued pursuant to Resolutions 1 and 2), the net value of a LCG share immediately post this issue would approximate 0.0234 cents per share (assuming that \$451,000 is raised in total as noted in the Resolutions 3, 4 and 5 in the Notice) and accepting the unsubstantiated value of \$nil for the LCG Business (the benefit of the Option Deed is to be transferred to the Living Cities Creditors Trust and thus LCG will have no interests in mineral tenements or any other business activities).

## 6. Premium for Control

- 6.1 Premium for control for the purposes of this report has been defined as the difference between the price per share that a buyer would be prepared to pay to obtain a controlling interest in the Company and the price per share at which the same person would be required to pay per share which does not carry with it control of the Company.
- 6.2 Under TCA, control may be deemed to occur when a shareholder or group of associated shareholders' control more than 20% of the issued capital. In this case, the combined holdings of the Subscribers could initially hold approximately 83.892% of the expanded issued capital of LCG (Szancer, Harmstorf and Anderson approximately 27.964% each). In take-over offers, it is often the case that a premium for control falls in the normal range of 15% to 40% and it is often accepted that a 20% premium for control should be payable. The actual premium may be more or less. In this case, we assume a reasonable premium for control in the current circumstances of the Company (deficiency in equity and effectively no remaining mineral activities other than the interest in the Yogi tenements via the Option Deed that will benefit the existing creditors of LCG) should be 20%.
- 6.3 The LCG shares that are proposed to be issued to the Subscribers (the subject of Resolutions 3, 4 and 5), are deemed to be theoretically worth nil cents. After various transaction costs and payment of directors' fees and other creditors, a net cash balance of approximately \$35,000 will remain in the Company (assuming the raising of the \$451,000 pursuant to Resolutions 3 to 6 referred to above).

In our opinion, it is possible that the Subscribers are only paying small premiums for control, however, the non-associated shareholders of LCG are benefiting in that the theoretical value of a LCG share rises from nil cents (with minimal business activities) to a company with a theoretical cash backed value of approximately 0.234 cents per share.

If Resolutions 1 to 10 are passed together with the completion of the recapitalisation proposal, the Company's chances to continue to investigate opportunities are enhanced as without the recapitalisation, it is likely that the Company may eventually be dissolved and struck off. However, in the short term the re-quotation of the Company's shares on ASX is unlikely as the Company will need to meet Chapters 1 and 2 of the ASX Listing Rules. The Company would need to find a new business and raise additional funds so that it could meet the Listing Rules.

- 6.4 Our preferred methodology is to value LCG and a LCG share on a technical net asset basis which assumes a 100% interest in the Company. Therefore, no adjustment is considered necessary to the technical asset value determined under paragraph 5.4.2 as this already represents the fair value of the Company or a share in the Company on a pre-Proposed Transaction control basis.
- 6.5 We set out below the comparison of the low, preferred and high values of a LCG share compared to the issue price for the 125,000,000 subscription shares to be issued to the Subscribers.

	Para.	Low (cents)	Preferred (cents)	High (cents)
Estimated fair value of a LCG Share	5.6	0.00	0.00	0.00
Issue prices of the Subscription Shares to the Subscribers (cents rounded)		0.36	0.36	0.36
Excess between Subscription Prices and fair value		0.36	0.36	0.36

We note elsewhere in this report the potential shell value of LCG but also note that technically LCG is insolvent and thus without a recapitalisation proposal, the value of a share in LCG has no value.

- 6.6 On a pre-Proposed Transaction control basis, the value of a LCG share is nil cents per share. The issue of 125,000,000 Subscription Shares to the Subscribers is expected to raise \$450,000. Based on the preferred value of nil cents per share, a premium for control of approximately 0.36 cents per share is being paid by the Subscribers.
- 6.7 We note that Subscribers will be able to elect a new board and have nominated Szancer, Harmstorf and Anderson as incoming directors.

## **7. Fairness of the Proposals**

- 7.1 The concept of "fairness" is to be taken to be the value of the offer price, or the consideration being equal to or greater than the value of the securities in the above-mentioned offer. As noted above the LCG shares that are proposed to be issued to the Subscribers, the subject of Resolutions 3, 4 and 5 are deemed to be theoretically worth nil cents. Assuming a 20% premium for control, the deemed theoretical value is still nil.
- 7.2 If the issue of the 125,000,000 Subscription Shares to the Subscribers (41,666,667 to each of Szancer and Harmstorf and 41,666,666 shares to Anderson) is completed, the theoretical value of a LCG share increases to approximately 0.234 cents. The theoretical value of a LCG share post the issue of the shares to the Subscribers from a non-associated shareholder's perspective, based on the estimated net assets of \$35,000 is 0.0234 cents as noted in paragraph 2.5 above which is in excess of the theoretical value pre-recapitalisation of nil cents per share (a company with negligible assets and debts totalling approximately \$4.377 million).
- 7.3 In arriving at our conclusion on fairness, we considered whether the transaction is "fair" by comparing:
- (a) the fair market value of a LCG share pre-transaction on a control basis; versus
  - (b) the fair market value of a LCG share post-transaction on a minority basis, taking into account the additional cash raised and the associated dilution resulting from the issue of new shares under the transactions.
- 7.4 The low, preferred and high values of a LCG share pre-the Recapitalisation on a control basis is:

	Para.	Low (cents)	Preferred (cents)	High (cents)
Estimated fair value of a LCG Share	5.6	nil	nil	nil

- 7.5 The preferred fair market value of a LCG share has been estimated at nil cents on a pre-Proposed Transaction control basis. The Subscribers Subscriptions results in an adjusted value of 0.234 cents per LCG share. As the preferred fair market value of a LCG share is greater on a post transaction basis, the proposed Subscriptions by Szancer, Harmstorf and Anderson are considered to be fair to the non-associated shareholders.
- 7.6 We set out below the range of estimated technical net asset values of LCG based on the post recapitalisation Pro-Forma Balance Sheet as detailed in paragraph 2.5 adjusted for a minority discount.

	\$
LCG Mineral Assets (to the benefit of creditors)	nil
Cash	35,000
Other current assets	nil
Other current liabilities	nil
Total net assets	<u>35,000</u>
Number of shares on issue	149,000,000
Net asset value per share (cents)	0.0234
Minority interest discount	16.67%
Minority value per share (cents)	0.0194
Issue Price (see paragraph 6.5 above (cents) (rounded)	0.36

7.7 As noted above the fair market value of a LCG share Post-Transaction on a minority basis, taking into account the additional cash raised and the associated dilution resulting from the issue of new shares under Resolutions 3, 4 and 5 (and Resolutions 1, 2 and 6) has a preferred fair value of approximately 0.0194 cents. Thus, on such a basis, the proposals under Resolutions 3, 4 and 5 would be fair.

7.8 In order to reflect the minority interest value we have applied a minority interest discount to the technical net asset value. The minority interest discount has been calculated as the inverse of the premium for control of 20% as discussed in paragraph 6.2.

7.9 We also set out below a comparison of:

- (a) the fair market value of a LCG share pre-transaction on a control basis; versus
- (b) the fair market value of a LCG share post-transaction on a minority basis, taking into account the additional cash raised and the associated dilution resulting from the issue of new shares pursuant to Resolutions 3, 4 and 5 (and Resolutions 1, 2 and 6).

	Para.	Low (cents)	Preferred (cents)	High (cents)
Estimated fair value of a LCG Share Pre-Transaction on a control basis	5.6	nil	nil	nil
Estimated fair value of a LCG Share Post Transaction on a minority basis	7.6	<u>0.0194</u>	<u>0.0194</u>	<u>0.0194</u>
Excess/(shortfall) between Pre-transaction Price and Post Transaction Price		<u>0.0194</u>	<u>0.0194</u>	<u>0.0194</u>

Using the preferred net asset fair values, the estimated fair value of a LCG share Pre-Transaction on a control basis is less than the estimated fair value of a LCG share Post Transaction on a minority basis and on this basis the Subscribers Subscriptions are considered to be fair to the non-associated shareholders of LCG.

## 7.10 Conclusion as to fairness

After taking into account the matters referred to in 7 above and elsewhere in this report, we are of the opinion that, in the absence of a superior proposal, the proposals as outlined in Resolutions 3, 4 and 5 respectively are on balance fair to the non-associated shareholders of LCG as at the date of this report.

As noted above, if we ascribed a shell value of \$300,000 to the Company the net liabilities pre-the recapitalisation proposals would decrease to approximately \$3.408 million being (60.46) cents per share. This is less than the share price of 0.36 cents per share being subscribed by the Subscribers under Resolutions 3, 4 and 5. If the Company had no debt and a shell value of \$300,000 the net asset value per share pre-recapitalisation would be approximately 5.33 cents per post consolidated share. However, we reiterate that "shell value" is dependent on a commercial recapitalisation proposal and if shareholders do not approve the Subscribers proposals or a superior offer (made before shareholders' vote on Resolutions 1 to 10), then shell value does not exist.

## 8. Reasonableness of the Proposals

### Advantages

- 8.1 The passing and consummation of Resolutions 1 to 10 as part of the recapitalisation proposal would result in a net cash position of approximately \$35,000 (assuming the capital raising of the \$451,000 referred to above) and having a company with minimal or no liabilities, compared with the current position whereby the Company has net assets of \$nil and significant debts to pay. The Company would also raise a further \$1,000 through consummation of Resolution 6.
- 8.2 If the proposals per Resolutions 1 to 10 are consummated as part of the recapitalisation process, the net cash asset backing of a LCG share rises from nil cents to approximately 0.0234 cents (assumes \$451,000 worth of shares are issued for cash).
- 8.3 If Resolutions 1 to 10 are passed together with the completion of the recapitalisation proposal, the Company's chances to continue to investigate opportunities are enhanced as without the recapitalisation, it is likely that the Company may be dissolved and struck off. However, in the short term the re-quotation of the Company's shares on ASX is unlikely as the Company will need to meet Chapters 1 and 2 of the ASX Listing Rules. The Company would need to find a new business and raise additional funds so that it could meet the Listing Rules.
- 8.4 The proposed directors (Szancer, Harmstorf and Anderson) bring additional expertise to the Company in that such Directors have financial, accounting, legal and corporate experience and/or experience as directors of other trading entities. The ES discloses the background of the proposed directors.

### Disadvantages

- 8.5 A significant shareholding in the Company is being given to the Subscribers collectively and individually in that they could collectively own approximately 83.892% (individually approximately 27.964%) of the expanded issued capital of the Company after the passing of Resolutions 1 to 10 (the passing of Resolutions 1 to 9 are dependent on all resolutions being passed). However, we note that LCG will be partly recapitalised with approximately \$35,000 in net cash (assuming only the \$451,000 total capital raisings), will have no debt and will have the opportunity to consider the acquisition of other assets or businesses. The existing shareholders are diluted to approximately 7.54% after the passing of Resolutions 3, 4 and 5 (after Resolution 1, 2 and 6 are also passed but before any other shares are issued). It is assumed that all investors will obtain a benefit particularly if the Company's shares can be re-quoted on ASX (the Company will need to re-comply with Chapters 1 and 2 of the ASX Listing Rules).

8.6 LCG would only have approximately net cash of \$35,000 (assuming the raising of \$451,000 as noted above) after the issue of the 125,000,000 Subscription Shares to the Subscribers (and the issue of 11,958,706 shares to Benelong for a total capital raising of \$1,000 per Resolution 6). As noted above, in the short term the re-quotation of the Company's shares on ASX is unlikely as the Company will need to meet Chapters 1 and 2 of the ASX Listing Rules. The Company would still need to find a new business and raise additional funds so that it could meet the Listing Rules. In the absence of a superior offer (made before shareholders' vote on Resolutions 1 to 10) then shell value does not exist and it is quite possible in the absence of any other recapitalisation proposal, the Company could be placed into liquidation.

8.7 If the Company seeks new business opportunities, there is no guarantee that such businesses will be profitable.

## **9. Conclusion as to Reasonableness**

9.1 **After taking into account the matters referred to in 8 above and elsewhere in this report, we are of the opinion that, in the absence of a superior proposal, the proposals as outlined in Resolutions 3, 4 and 5 respectively are on balance reasonable to the non-associated shareholders of LCG as at the date of this report.**

## **10. Shareholder Decision**

10.1 Stantons International Securities Pty Ltd has been engaged to prepare an independent expert's report setting out whether in its opinion the issue of 125,000,000 Subscription Shares to the Subscribers is fair and reasonable and state reasons for that opinion. Stantons International Securities Pty Ltd has not been engaged to provide a recommendation to shareholders in relation to resolutions other than Resolutions 3, 4 and 5 (but we have been requested to determine whether the proposals pursuant to Resolutions 3, 4 and 5 are fair and/or reasonable to those shareholders not associated with the Subscribers). The responsibility for such a voting recommendation lies with the directors of LCG.

10.2 In any event, the decision whether to accept or reject Resolutions 3, 4 and 5 is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the proposals under Resolutions 3 and 4 (and all other Resolutions) shareholders should consult their own professional adviser.

10.3 Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in LCG. This is an investment decision upon which Stantons International Securities Pty Ltd does not offer an opinion and is independent on whether to accept the proposals under Resolutions 3, 4 and 5 (and all other Resolutions). Shareholders should consult their own professional adviser in this regard.

## **11. Sources of Information**

11.1 In making our assessment as to whether the proposals pursuant to Resolutions 3, 4 and 5 are fair and reasonable, we have reviewed relevant published available information and other unpublished information of LCG (such as the Administrators Circular to Creditors) which is relevant in the current circumstances. In addition, we have held discussions with Steve Nicols of Benelong Capital Partners Pty Ltd who is co-ordinating the recapitalisation proposal about the present state of affairs of LCG. Statements and opinions contained in this report are given in good faith, but in the preparation of this report, we have relied in part on information provided by the Company and publicly filed information on the financial position of the Company lodged via the ASX website.

## Stantons International Securities

11.2 Information we have received includes, but is not limited to:

- drafts of the April 2017 Notice of General Meeting of Shareholders of LCG (and drafts of the ES attached to 26 April 2017);
- discussions with Steve Nicols from Benelong Capital Partners Pty Ltd who is co-ordinating the recapitalisation proposal;
- shareholding details of LCG;
- announcements, if any, made by LCG to the ASX from January 2015 to 26 April 2017;
- Circular to Creditors of LCG, dated July 2016;
- signed DOCA dated 17 August 2016;
- reviewed consolidated accounts of LCG for the half year ended 31 December 2015; and
- unaudited summarised balance sheet of LCG as at July 2016 as disclosed in the ES attached to the Notice.

11.3 Our report includes Appendix A and Financial Services Guide, attached to this report.

Yours faithfully

**STANTONS INTERNATIONAL SECURITIES PTY LTD**  
**(Trading as Stantons International Securities)**



**John Van Dieren - FCA**  
**Director**

## APPENDIX A

### AUTHOR INDEPENDENCE

This annexure forms part of and should be read in conjunction with the report of Stantons International Securities Pty Ltd (trading as Stantons International Securities) dated 26 April 2017, relating to the proposals pursuant to Resolutions 3, 4 and 5 outlined in the Notice of Meeting of Shareholders and the accompanying ES to be distributed to shareholders of LCG in late April 2017 or early May 2017.

At the date of this report, Stantons International Securities Pty Ltd does not have any interest in the outcome of the proposals. There are no relationships with LCG other than acting as an independent expert for the purposes of this report. There are no existing relationships between Stantons International Securities Pty Ltd and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated not to exceed \$9,500 (excluding GST). The fee is payable regardless of the outcome. With the exception of that fee, neither Stantons International Securities Pty Ltd nor John Van Dieren or Martin Michalik have received nor will or may they receive any pecuniary or other benefits, whether directly or indirectly for or in connection with the making of this report. Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd or any directors of Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd do not hold any securities in LCG. There are no pecuniary or other interests of Stantons International Securities Pty Ltd that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities Pty Ltd has consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice. Stantons International Securities Pty Ltd has prepared other independent expert reports for parties associated with the Promoter or its nominees.

### QUALIFICATIONS

We advise Stantons International Securities Pty Ltd is the holder of an Investment Advisers Licence (No 448697) under the Corporations Act relating to advice and reporting on mergers, takeovers and acquisitions involving securities. A number of the directors of Stantons International Audit and Consulting Pty Ltd are the directors and authorised representatives of Stantons International Securities. Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd (trading as Stantons International) have extensive experience in providing advice pertaining to mergers, acquisitions and strategic and financial planning for both listed and unlisted companies and businesses.

Mr John Van Dieren (FCA) and Mr Martin Michalik (ACA) the persons responsible for the preparation of this report, have extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuations and financial aspects thereof, including the fairness and reasonableness of the consideration offered. The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the tasks they have performed.

### DECLARATION

This report has been prepared at the request of a director of the Company in order to assist the shareholders of LCG to assess the merits of the proposals (Resolutions 3, 4 and 5) to which this report relates. This report has been prepared for the benefit of the LCG shareholders and those persons only who are entitled to receive a copy for the purposes of Section 611 (Item 7) of the Corporations Act 2001 and does not provide a general expression of Stantons International Securities Pty Ltd's opinion as to the longer-term value of LCG. Stantons International Securities Pty Ltd does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of LCG or any of its subsidiaries. Neither the whole, nor any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities Pty Ltd to the form and context in which it appears.



### **DUE CARE AND DILEGENCE**

This report has been prepared by Stantons International Securities with due care and diligence. The report is to assist shareholders in determining the fairness and reasonableness of the proposals set out in Resolutions 3, 4 and 5 to the Notice and each individual shareholder may make up their own opinion as to whether to vote for or against Resolutions 3, 4 and 5.

### **DECLARATION AND INDEMNITY**

Recognising that Stantons International Securities may rely on information provided by the directors (represented by Steve Nicols in lieu of the Directors), its officers and other parties (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities experience and qualifications), the directors (on behalf of LCG) has agreed:

- (a) to make no claim by it or its officers against Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which LCG may suffer as a result of reasonable reliance by Stantons International Securities on the information provided by the directors; and
- (b) to indemnify Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from the directors, officers and LCG providing Stantons International Securities any false or misleading information or in the failure of the directors, LCG and their officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities.

A draft of this report was presented to the proposed Directors and the Promoter for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.

**FINANCIAL SERVICES GUIDE  
FOR STANTONS INTERNATIONAL SECURITIES PTY LTD  
(Trading as Stantons International Securities)  
Dated 26 April 2017**

1. Stantons International Securities Pty Ltd (ABN 42 128 908 289 and AFSL Licence No 448697) ("SIS" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. 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 the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 448697;
- remuneration that we and/or our staff and any associated entities 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.

3. Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

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 a financial services licensee authorised to provide the financial product advice contained in the report.

4. General Financial Product Advice

In our report, we provide general financial product advice, not personal financial product 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.

5. 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 SIS, 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.

6. Remuneration or other benefits received by our employees

SIS has no employees and Stantons International Audit and Consulting Pty Ltd charges a fee to SIS. All Stantons International Audit and Consulting Pty Ltd employees receive a salary. Stantons International Audit and Consulting Pty Ltd employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. 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 licensed to provide.

8. Associations and relationships

SIS is ultimately a wholly owned subsidiary of Stantons International Audit and Consulting Pty Ltd a professional advisory and accounting practice. From time to time, SIS and Stantons International Audit and Consulting Pty Ltd (that trades as Stantons International) and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. Complaints resolution

9.1 Internal complaints resolution process

As the 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 Complaints Officer  
Stantons International Securities Pty Ltd  
Level 2  
1 Walker Avenue  
WEST PERTH WA 6005

Telephone: 08 9481 3188  
Facsimile: 09 9321 1204

When we receive a written complaint, we will record the complaint, acknowledge receipt of the complaints 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.

9.2 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 Limited ("FOSL"). FOSL 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 services industry.

Further details about FOSL are available at the FOSL website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited  
PO Box 3  
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399