

# Notice of Extraordinary General Meeting and Explanatory Memorandum

**Emefcy Group Limited**  
**ACN 127 734 196**

Notice is given that an extraordinary general meeting (**Meeting**) of the Company will be held at:

Date: 12 July 2017  
Time: 11:00 am  
Location: Hall & Wilcox  
Level 11, Rialto South Tower  
525 Collins Street  
Melbourne, Victoria

The Company proposes to acquire all of the limited liability company interests in RWL Water LLC, a global provider of water, wastewater and reuse solutions from RSL Investments Corporation. The acquisition will be funded by the issue of Emefcy Shares. Subject to completion of the acquisition of RWL Water LLC, the Company also proposes to issue to RSL Investments Corporation Emefcy Shares at the issue price of A\$0.85 to raise US\$20,000,000.

The Independent Expert has prepared an Independent Expert's Report in relation to the issue of Emefcy Shares to RSL Investments Corporation and has concluded that, in the absence of a superior offer, the Proposed Transactions are fair and reasonable to non-associated Shareholders. Refer to Annexure A for further information.

## Important notices

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This Notice of Meeting and Explanatory Memorandum is issued by Emefcy Group Limited ACN 127 734 196 (**Company** or **Emefcy**).

### **Purpose of this document**

This document is important. It contains information for Shareholders relating to the issue of Shares in the Company. This Notice of Meeting and Explanatory Memorandum provides Shareholders with information to assist them in deciding how to vote on the Resolutions to be considered at the Meeting. This Notice of Meeting and Explanatory Memorandum does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, this Notice of Meeting and Explanatory Memorandum should not be relied upon as the sole basis for any decision in relation to your vote at the Meeting.

This Notice of Meeting and Explanatory Memorandum has been prepared in accordance with item 7, section 611 of the Corporations Act 2001 (Cth) (**Corporations Act**) which require Shareholder approval of the issue of Shares to the Seller. Further, ASIC Regulatory Guide 74 (**RG 74**) and ASIC Regulatory Guide 111 (**RG 111**) set out certain disclosure requirements which have been addressed in this document. This includes the requirement to provide an Independent Expert's Report prepared in accordance with RG 111 assessing the fairness and reasonableness of the Proposed Transactions. The Independent Expert's Report is attached to the Explanatory Memorandum and should be read in conjunction with this Notice of Meeting and the rest of the Explanatory Memorandum.

You should read this Notice of Meeting and Explanatory Memorandum in its entirety before making a decision as to how to vote at the Meeting. If you have any doubt as to what you should do once you have read this Notice of Meeting and Explanatory Memorandum, you should consult your legal, financial or other professional adviser.

### **ASIC and ASX involvement**

A copy of the Notice of Meeting and Explanatory Memorandum has been lodged with ASIC pursuant to the applicable regulatory guides and with ASX pursuant to the Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of the Notice of Meeting and Explanatory Memorandum.

### **Disclaimers as to forward looking statements**

Some of the statements appearing in this Notice of Meeting and Explanatory Memorandum (including the Independent Expert's Report) may be in the nature of forward looking statements. You should be aware that such statements are not based on historical facts, but rather reflect the current views of the Company or, in relation to the RWL Information, the Seller, held only as of the date of this Notice of Meeting and Explanatory Memorandum concerning future results and events and are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include

factors and risks specific to the industries and countries in which the Company or RWL Water Group operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

Some of the risks that Shareholders may be exposed to if the Proposed Transactions are completed are set out in the Explanatory Memorandum. None of the Company, the Seller, their respective officers or employees, any persons named in this Notice of Meeting and Explanatory Memorandum with their consent or any person involved in the preparation of this Notice of Meeting and Explanatory Memorandum, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. The forward looking statements included in this Notice of Meeting and Explanatory Memorandum are made only as of the date of this Notice of Meeting and Explanatory Memorandum. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Notice of Meeting and Explanatory Memorandum reflect views held only as at the date of this Notice of Meeting and Explanatory Memorandum.

### **Disclaimer as to information**

No person is authorised to give any information or make any representation in connection with the Proposed Transactions which is not contained in this Notice of Meeting and Explanatory Memorandum. Any information or representation not contained in this Notice of Meeting and Explanatory Memorandum may not be relied on as having been authorised by the Company or the Directors in connection with the Proposed Transactions.

### **Responsibility for information**

Emefcy has prepared, and is responsible for, the Emefcy Information. Neither the Seller nor RWL Water Group (and each of their respective directors, officers and advisers (as applicable)) assumes any responsibility for the accuracy or completeness of any of the Emefcy Information.

The Seller has prepared, and is responsible for, the RWL Information. Emefcy (and each of its respective Directors, officers and advisers (as applicable)) does not assume any responsibility for the accuracy or completeness of any of the RWL Information.

The Independent Expert has prepared the Independent Expert's Report and takes responsibility for that report and has consented to the inclusion of that report in this Notice of Meeting and Explanatory Memorandum.

Emefcy does not assume any responsibility for the accuracy or completeness of the Independent Expert's Report nor do its Directors, officers and advisers.

**Privacy**

The Company has collected your information from the Share Registry for the purpose of providing you with this Notice of Meeting and Explanatory Memorandum. The type of information the Company has collected about you includes your name, contact details and information on your shareholding in the Company. Without this information, the Company would be hindered in its ability to issue this Notice of Meeting and Explanatory Memorandum. The Corporations Act requires the name and address of Shareholders to be held in a public register.

Your information may be disclosed on a confidential basis to the Company's Related Bodies Corporate and external service providers (such as the Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by the Company, please contact the Share Registry at Boardroom Pty Limited via the details found on the contact page at [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au).

The registered address of the Company is Suite 1, 1233 High Street Armadale, Victoria, 3143.

**Definitions**

Certain terms and abbreviations used in this Notice of Meeting and Explanatory Memorandum have defined meanings which are explained in the Glossary.

**Enquiries**

If you have any questions please call the Company Secretary on + 61 (0)3 9824 5254 at any time between 8.00am and 5.00pm (Australian Eastern Standard Time) Monday to Friday until the date of the Meeting.

**Date**

This Notice of Meeting and Explanatory Memorandum is dated Thursday, 8 June 2017.

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**EMEFY GROUP LIMITED**

**ACN 127 734 196**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

Notice is given that an extraordinary general meeting of Shareholders of Emefcy Group Limited ACN 127 734 196 (**Company or Emefcy**) will be held at the time and location and to conduct the business specified below (**Notice of Meeting**).

**Date:** 12 July 2017

**Time:** 11:00 am

**Location:** Hall & Wilcox  
Level 11, Rialto South Tower  
525 Collins Street  
Melbourne, Victoria 3000

At the Meeting Shareholders are asked, among other matters, to consider the acquisition of the limited liability company interests in RWL Water LLC from RSL Investments Corporation in consideration for the issuance of the Consideration Shares and also the issuance of Placement Shares to RSL Investments Corporation (or its Related Bodies Corporate) to raise US\$20,000,000.

To assist Shareholders with their decision on whether to approve the proposed acquisition and capital raising and other matters, the Explanatory Memorandum and Independent Expert's Report accompany, and form a part of, this Notice of Meeting.

Terms used in this Notice of Meeting will, unless the context requires otherwise, have the meaning given to them in the Glossary of defined terms in section 9 of the Explanatory Memorandum.

**BUSINESS**

The business of the Meeting shall be as follows:

**1. RESOLUTION 1: APPROVAL FOR THE ISSUE OF CONSIDERATION SHARES**

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

*“That, subject to Resolutions 2 and 7 being passed and for the purposes of section 611, item 7 of the Corporations Act and for all other purposes, approval is given for the issue of 100,500,000 Shares to RSL Investments Corporation or its Related Bodies Corporate as consideration for the Company's acquisition of all of the limited liability company interests in RWL Water LLC on the terms and conditions set out in the Sale and Purchase Agreement.”*

Voting exclusion statement on Resolution 1: The Company will disregard any votes cast on this Resolution by RSL Investments Corporation and any Associates of RSL Investments Corporation. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 2. RESOLUTION 2: APPROVAL FOR THE ISSUE OF PLACEMENT SHARES

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

*“That, subject to Resolutions 1 and 7 being passed and for the purposes of section 611, item 7 of the Corporations Act and for all other purposes, approval is given for the issue of the number of Shares equal to (X) US\$20,000,000 converted into Australian dollars at the US-AU dollar exchange rate published by the Reserve Bank of Australia as at 10.00 a.m. (AEST) on the date of completion of the acquisition of RWL Water LLC under the Sale and Purchase Agreement, divided by (Y) A\$0.85 (rounded to the nearest whole Share), for the issue price of A\$0.85 per Share to RSL Investments Corporation or its Related Bodies Corporate under a private placement on the terms and conditions set out in the Explanatory Memorandum.”*

Voting exclusion statement on Resolution 2: The Company will disregard any votes cast on this Resolution by RSL Investments Corporation and any Associates of RSL Investments Corporation. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by 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. RESOLUTION 3: APPOINTMENT OF DR RENGARAJAN RAMESH AS A DIRECTOR AND ISSUE OF OPTIONS

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

(a) *“That subject to Resolutions 1, 2 and 7 being passed and in accordance with clause 4.2(b) of the Company's constitution, Dr Rengarajan Ramesh be appointed a director of the Company after receiving any applicable consent required from that person.”*

(b) *“That subject to Resolutions 1, 2 and 7 being passed, for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 1,500,000 Options to Dr Rengarajan Ramesh to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*

Voting exclusion statement on Resolution 3(a) and 3(b): The Company will disregard any votes cast on this Resolution by Dr Rengarajan Ramesh and any of his Associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by 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.

## 4. RESOLUTION 4: APPROVAL TO AMEND A MATERIAL TERM OF THE EMPLOYEE SHARE OPTION PLAN

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

*“That subject to Resolutions 1, 2 and 7 being passed and for the purposes of Listing Rule 7.2 (Exception 9) and for all other purposes, Shareholders approve and authorise the Directors to increase the number of the Options able to be issued under the ESOP from 5% of the then current number of Shares on issue to 6% of the then current number of Shares on issue”.*

Voting exclusion statement on Resolution 4: The Company will disregard votes cast as a proxy by a Director (except one who is ineligible to participate in any employee incentive scheme) and a member of the Company's key management personnel (KMP) or any of their Closely Related Parties. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form, or it is cast by the Chairman of the Meeting as a proxy for a person who is entitled to vote and the appointment of the Chairman as proxy does not specify the way the proxy is to vote and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

**5. RESOLUTION 5: APPROVAL OF INCREASE IN THE MAXIMUM AGGREGATE REMUNERATION FOR NON-EXECUTIVE DIRECTORS**

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

*“That, subject to Resolutions 1, 2 and 7 being passed, for the purpose of Listing Rule 10.17 and in accordance with clause 4.6(b) of the Company's constitution, approval is given for the increase in the maximum aggregate remuneration for non-executive directors from \$500,000 to \$1,000,000 per annum.”*

Voting exclusion statement on Resolution 5: The Company will disregard any votes cast on this Resolution by a Director and an Associate of the Director. The Company will also disregard votes cast as a proxy by a member of the Company's KMP or any of their Closely Related Parties. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form, or it is cast by the Chairman of the Meeting as a proxy for a person who is entitled to vote and the appointment of the Chairman as proxy does not specify the way the proxy is to vote and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

**6. RESOLUTION 6: APPROVAL OF ISSUE OF OPTIONS TO DIRECTORS**

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

- (a) *“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 2,000,000 Options to Mr Richard Irving, Executive Chairman, to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*
- (b) *“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 1,500,000 Options to Mr Ross Haghighat, Non-Executive Director, to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*
- (c) *“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 1,500,000 Options to Mr Peter Marks, Non-Executive Director, to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*
- (d) *“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 1,500,000 Options to Mr Robert Wale, Non-Executive Director, to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*
- (e) *“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 1,000,000 Options to Mr Eytan Levy, Executive Director, to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum.”*

Voting exclusion statement on Resolutions 6(a), 6(b), 6(c) 6(d) and 6(e): The Company will disregard any votes cast on this Resolution by a person who is to receive securities in relation to the Company and an Associate of that person (or those persons). The Company will also disregard votes cast as a proxy by a member of the Company's KMP or any of their Closely Related Parties. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form, or it is cast by the Chairman of the Meeting as a proxy for a person who is entitled to vote and the appointment of the Chairman as proxy does not specify the way the proxy is to vote and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

**7. RESOLUTION 7: APPROVAL OF THE ACQUISITION OF A RELEVANT INTEREST BY THE COMPANY**

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

*“That, subject to Resolutions 1 and 2 being passed and for the purposes of section 611, item 7 of the Corporations Act and for all other purposes, Shareholders approve the acquisition by the Company of a Relevant Interest in the 100,500,000 Consideration Shares to be issued to the Seller or its Related*

*Bodies Corporate acquired as a result of the escrow restrictions described in sections 3.1 and 5.1(c) of the Explanatory Memorandum."*

Voting exclusion statement on Resolution 7: The Company will disregard any votes cast on this Resolution by any Associates of the Company. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by 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.

## **8. RESOLUTION 8: APPROVAL OF POTENTIAL TERMINATION BENEFITS**

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

- (a) *"That, subject to Resolutions 1, 2 and 7 being passed and for the purposes of sections 200B and 200E of the Corporations Act, Listing Rule 10.19 and for all other purposes, approval is given for the giving of benefits by the Company or any of its Related Bodies Corporate to Mr Henry J. Charrabé (proposed Managing Director and Chief Executive Officer of the Merged Group), in connection with Mr Charrabé ceasing to be a director or ceasing to hold a managerial or executive office in the Company or a Related Body Corporate, as set out in the Explanatory Memorandum."*
- (b) *"That, subject to Resolutions 1, 2 and 7 being passed and for the purposes of sections 200B and 200E of the Corporations Act, Listing Rule 10.19 and for all other purposes, approval is given for the giving of benefits by the Company or any of its Related Bodies Corporate to Astaris SAS in connection with Astaris SAS ceasing to provide the services of Mr Philippe Laval (proposed Chief Operating Officer of the Merged Group) which results in his ceasing to hold a managerial or executive office in the Company or a Related Body Corporate, as set out in the Explanatory Memorandum."*

Voting exclusion statement on Resolutions 8(a) and 8(b): The Company will disregard any votes cast on this Resolution by an officer of the Company or any of its child entities who is entitled to participate in a termination benefit. The Company will also disregard votes cast as a proxy by a member of the Company's KMP or any of their Closely Related Parties. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form, or it is cast by the Chairman of the Meeting as a proxy for a person who is entitled to vote and the appointment of the Chairman as proxy does not specify the way the proxy is to vote and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.

## **9. RESOLUTION 9: PREVIOUS ISSUE OF OPTIONS TO MR HENRY J CHARRABÉ**

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

*"That subject to Resolutions 1, 2 and 7 being passed and for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify and approve the previous issue, in reliance on Listing Rule 7.1, of a total of 11,191,336 Options on 31 May 2017 to Mr Henry J Charrabé (proposed Managing Director and Chief Executive Officer of the Merged Group) to subscribe for Shares on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."*

Voting exclusion statement on Resolution 9: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and an Associate of that person (or those persons). However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by 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.

## **10. RESOLUTION 10: CHANGE OF COMPANY NAME**

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

*"That, subject to Resolutions 1, 2 and 7 being passed, for the purpose of section 157(1) of the Corporations Act and for all other purposes, the Company's name be changed from Emefcy Group Limited to Fluence Corporation Limited and that, for the purposes of section 136(2) of the Corporations*

*Act and for all other purposes, all references to Emefcy Group Limited in the Company's constitution be replaced with references to Fluence Corporation Limited."*

Dated 8 June 2017

**By Order of the Board**

Richard Irving  
Executive Chairman

## IMPORTANT INFORMATION

### Accompanying Explanatory Memorandum

The accompanying Explanatory Memorandum forms part of this Notice of Meeting and should be read in conjunction with it.

### Voting Entitlements

For the purposes of the Meeting, the Directors have determined that pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), Shares will be taken to be held by the persons who are the registered holders at 11.00 am (AEST) on 10 July 2017. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

On a poll, Shareholders have one vote for every Share held. Holders of options are not entitled to vote.

### Voting in person

To vote in person at the Meeting, you must attend the meeting to be held at 12 July 2017.

### Voting by proxy

A Shareholder who is entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on behalf of that Shareholder. A proxy need not be a Shareholder. A Shareholder can appoint an individual or a body corporate as its proxy. If a body corporate is appointed as a proxy, it must ensure that it appoints a corporate representative as required by the *Corporations Act 2001* (Cth) to exercise its powers as proxy at the Meeting.

A Shareholder who is entitled to cast two or more votes may appoint up to two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If a Shareholder appoints two proxies and the appointments do not specify the proportion or number of votes that each proxy may exercise, each proxy may exercise half the votes (disregarding fractions).

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on the Resolution by marking either "For", "Against" or "Abstain" on the Proxy Form for that item of business.

Completed Proxy Forms (and the power of attorney or other authority, if any, under which

the Proxy Form is signed) must be received by the Company's share registry, Boardroom Pty Limited, no less than 48 hours before the time of commencement of the Meeting by the means outlined below.

The Proxy Form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a body corporate, in accordance with section 127 of the Corporations Act. A proxy given by a foreign body corporate must be executed in accordance with the laws of that body corporate's place of incorporation.

The proxy may, but need not, be a Shareholder of the Company.

If you sign the Proxy Form and do not appoint a proxy, you will have appointed the Chairman of the Meeting as your proxy.

Completed Proxy Forms may be lodged using the enclosed reply paid envelope or:

**Online** [www.votingonline.com.au/emefcyagm2017](http://www.votingonline.com.au/emefcyagm2017)

**By Fax** +61 2 9290 9655

**By Mail** Boardroom Pty Limited

GPO Box 3993,

Sydney NSW 2001 Australia

**In Person** Level 12, 225 George Street,

Sydney NSW 2000 Australia

Completed Proxy Forms (and any necessary supporting documents) must be received by Boardroom Pty Limited no later than 11am (AEST) on Monday, 10 July 2017. Proxy Forms received after that time will not be valid.

Further instructions on completing and lodging the Proxy Form are set out in the attached Proxy Form.

### Undirected proxies

Subject to any restrictions set out in this Notice or the Proxy Form, the Chairman of the meeting intends to vote all undirected proxies in favour of all resolutions.

If you appoint the Chairman of the Meeting (or the Chairman is taken to be appointed) as your proxy and you do not direct the Chairman how to vote on a resolution, then by completing and returning the Proxy Form, you expressly authorise the Chairman to exercise the proxy even though a

resolution is connected directly or indirectly with the remuneration of a member of the Company's key management personnel and to vote in accordance with his stated intention to vote in favour of all resolutions.

If you have appointed the Chairman of the Meeting (or the Chairman is taken to be appointed) as your proxy and you direct the Chairman how to vote on a resolution by marking either "for", "against" or "abstain" for a resolution, then your vote will be cast in accordance with your direction.

### **Corporate representatives**

A Shareholder, or proxy, that is a body corporate and entitled to attend and vote at the Meeting may appoint an individual to act as its corporate representative. Evidence of the appointment of a corporate representative must be in accordance with section 250D of the Corporations Act and be lodged with the Company.

A Shareholder entitled to attend and vote at the Meeting may appoint an attorney to attend and vote at the Meeting on the Shareholder's behalf. The power of attorney appointing the attorney must be duly signed and specify the name of each of the Shareholder, the Company and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

A corporate representative or an attorney may, but need not, be a Shareholder of the Company.

Corporate representatives should bring to the Meeting appropriate evidence of appointment as a representative in accordance with the constitution of the Company. Attorneys are requested to bring to the Meeting the original or a certified copy of the power of attorney pursuant to which they were appointed. Proof of identity will also be required for corporate representatives and attorneys.

### **Enquiries**

For further information, please contact:

Ross Kennedy, Company Secretary and Advisor to the Board

Email: [rossk@emefcygroup.com](mailto:rossk@emefcygroup.com)

Telephone: +61 409 524 442

## CHAIRMAN'S LETTER

8 June 2017

### **Proposed Merger by the Acquisition of RWL Water LLC – Your Vote is Important**

Dear Shareholder

On 26 May 2017 Emefcy Group Limited (ASX: EMC) (**Emefcy**) announced that it had signed a definitive sale and purchase agreement with RSL Investments Corporation (**Seller**) to acquire RWL Water LLC (**RWL**). Both companies share a vision to combine and create a global provider of a comprehensive suite of decentralized water solutions. The proposed name of the new global group after the merger is Fluence Corporation Limited (**Fluence**). Among other conditions, this transaction is subject to Emefcy Shareholder approval, which is why I am writing to you now.

Under the terms of the agreement, Emefcy will merge by acquisition with RWL through the issue of 100.5 million new Emefcy shares to the Seller, an entity controlled by Mr Ronald S. Lauder. Those shares will be subject to a 2-year lock-up agreement, under which the Seller would only be allowed to sell the shares under limited circumstances.

The agreement further specifies that the Seller will subscribe for US\$20,000,000 (approximately A\$27 million) in Emefcy shares at a share price of A\$0.85 each. The share subscription is subject to Emefcy shareholder approval as well. Upon closing of the merger by the acquisition of RWL and share purchase, we estimate Mr Lauder will own approximately 34% of Fluence.

Fluence shares will remain listed on the Australian Securities Exchange.

An Extraordinary General Meeting of Shareholders has been convened for July 12, 2017 at 11:00 am Australian Eastern Standard Time, at Hall & Wilcox, Level 11, Rialto South Tower, 525 Collins Street, Melbourne, Victoria. At the meeting, Emefcy's shareholders will be asked to approve the merger by the acquisition of RWL, the capital raising and related matters.

**The Emefcy board of directors unanimously recommends that Emefcy shareholders vote FOR the merger by the acquisition of RWL and all other resolutions to be considered at the Emefcy Extraordinary General Meeting.**

**Each Director intends to vote FOR the acquisition and all other resolutions on which they are permitted to vote in respect of the Emefcy shares that they hold or control.**

#### **Emefcy Board's Reasons for the Merger by the Acquisition of RWL**

The Emefcy Board has reviewed and considered the proposed merger by the acquisition of RWL with the assistance of Emefcy's management, as well as with Emefcy's legal, financial and corporate advisors.

The shared vision of the two companies is to create a global provider of innovative, distributed water and wastewater treatment solutions. The Emefcy Board anticipates that the proposed merger by the acquisition of RWL would substantially accelerate Emefcy's deployment into China and other key markets, as well as deliver substantial sales synergies between Emefcy and RWL products and systems, resulting in continued revenue growth.

Fluence plans to provide a range of products and services for water treatment, wastewater treatment, desalination, waste-to-energy and water reuse and recovery. The combined group would focus on key growth markets including municipal, commercial, industrial, mining, oil & gas, power and food and beverage.

Fluence's wastewater treatment solution plans would be centred around Emefcy's proprietary Membrane Aerated Biofilm Reactor (MABR) technology and associated new technology developments.

In making its determination to pursue the merger by the acquisition of RWL, the Board focused on, among other things, the following material factors.

- On a combined basis, the two companies would have achieved revenues of US\$62 million (A\$83 million) in 2016 and anticipate sales in excess of US\$90 million (A\$120 million) for calendar 2017, 71% of which have already been achieved or are in backlog. Each company made significant investments in business and product development and innovation in calendar year 2016 and incurred losses in the same year.
- Each partner brings complementary strengths. RWL has strong capability in system design, construction, project management and deployment. Its brand recognition and marketing strength has already resulted in more than 7,000 reference sites in over 70 countries around the world. Meanwhile, the Board believes that Emefcy has developed a breakthrough technology that is "game-changing" in its ability to reduce wastewater treatment operating costs. The merger by the acquisition of RWL would also provide Emefcy with access to emerging and growing markets in Latin America and elsewhere around the globe for its MABR based technologies.
- As a combined entity, the Board believes that Fluence would be able to offer customers fully functional "turnkey" solutions that are highly differentiated by proprietary technology, accelerating deployment and commissioning of new plants, which is particularly important in the deployment of rural wastewater treatment plants in China, where the acceleration of deployments in rural and regional towns is critical. The ability to sell packaged turnkey solutions is estimated to shorten our sales and implementation cycles, and be attractive to our target customer base. With a differentiated solution that offers compelling economic advantages, Fluence could be more competitive while also capturing higher margins.
- The parties have already been working together as part of a strategic alliance, among other things, to pursue the large China market opportunity. Through working together in that alliance, both teams quickly came to the realization that they could potentially achieve a more powerful market position as a combined entity.

The Board has unanimously approved the acquisition and the execution of the sale and purchase agreement, taking into consideration a number of factors that are relevant to Emefcy and its stockholders.

**YOUR VOTE IS VERY IMPORTANT.**

If you are unable to attend the extraordinary general meeting to vote in person, please complete and submit your proxy form by following the instructions on page 11.

Thank you for your cooperation and continued support.

Yours sincerely

Richard Irving  
Executive Chairman

## EXPLANATORY MEMORANDUM

### 1 INTRODUCTION

#### 1.1 General

The Company proposes to acquire all of the limited liability company interests (**LLC Interests**) in RWL Water LLC (**RWL**) from RSL Investments Corporation (**Seller**). The purchase price for the LLC Interests will be paid by issuing 100,500,000 Shares (**Consideration Shares**) and payment of US\$10,000 (**Completion Cash Consideration**) to the Seller. In addition, the Company will issue further Shares to the Seller (or its Related Bodies Corporate) to raise US\$20,000,000 at an agreed price of A\$0.85 per share which will be used to integrate the two businesses after the completion of the acquisition and implement the business strategies of the Merged Group.

This Explanatory Memorandum is to provide Shareholders with all information known to the Company, which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Meeting. This Explanatory Memorandum should be read in conjunction with the Notice of Meeting. Capitalised terms in this Explanatory Memorandum are defined in the Glossary section of this Explanatory Memorandum.

A copy of the Notice of Meeting (including this Explanatory Memorandum) was lodged with ASX Limited (**ASX**) on 8 June 2017 and with the Australian Securities and Investments Commission (**ASIC**) on 5 June 2017. No responsibility is taken for the content of this Notice of Meeting (including this Explanatory Memorandum) by ASIC or ASX.

Having considered the circumstances as a whole, each Director believes that the advantages of the Proposed Transactions outweigh the disadvantages and risks associated with them. The reasons for and against the Resolutions relating to the Proposed Transactions and risks are set out in section 4 of this Explanatory Memorandum.

The Directors unanimously recommend that the Shareholders vote in favour of the Resolutions relating to the Proposed Transactions.

Each Director intends to vote in favour of those Resolutions (to the extent that they are entitled to vote on them) in respect of the Shares that they hold or control.

The Company has engaged an independent expert, PPB Advisory, to undertake an analysis of whether the Proposed Transactions are fair and reasonable when considered in the context of the interests of the Shareholders.

PPB Advisory concluded that, in the absence of a superior offer, the Proposed Transactions are fair and reasonable to the non-associated Shareholders. A copy of the Independent Expert's Report is included at Annexure A.

Shareholders are advised to read this document carefully and in full before the Meeting is held. If you are in any doubt as to how to deal with this document, please consult your financial, legal or other professional adviser.

#### 1.2 Purpose of Meeting

- (a) The main purpose of this Meeting is for the Shareholders to approve the Resolutions relating to the issue of:

- (i) 100,500,000 Consideration Shares to the Seller as payment for the acquisition of the LLC Interests; and
  - (ii) 31,840,000<sup>1</sup> Placement Shares to the Seller (or its Related Bodies Corporate) at an issue price of A\$0.85 per Share, to raise US\$20,000,000 (the proposed acquisition of the LLC Interests and capital raising from the Seller is collectively referred to as the **Proposed Transactions**).
- (b) Shareholders are also being asked to consider several other resolutions that are being proposed in connection with the Proposed Transactions.
- (c) As announced to ASX on 26 May 2017, the Company has entered into the Sale and Purchase Agreement with the Seller to acquire the LLC Interests, and also the Private Placement Letter Agreement with the Seller, under which the Seller (or its Related Bodies Corporate) will subscribe for the Placement Shares. The Proposed Transactions are subject to obtaining Shareholder approval of Resolutions 1, 2 and 7.
- (d) The principal effects of the Proposed Transactions, assuming that Completion occurs, are as follows:
- (i) the Company will acquire the LLC Interests;
  - (ii) the Company will raise US\$20,000,000 to fund working capital for its merged businesses;
  - (iii) following the issue of the Completion Shares and the Placement Shares at Completion, the total number of issued Shares will increase from 259,001,054 to an estimated 371,241,054<sup>2</sup>;
  - (iv) the Holdback Shares (consisting of 20% of the Consideration Shares) will not be issued for at least 12 months commencing on Completion, and their issue will be subject to claims, if any, arising from the indemnities provided by the Seller under the Sale and Purchase Agreement; and
  - (v) the Seller will be restricted from selling, transferring or otherwise disposing of any Consideration Shares for two years commencing on Completion in accordance with the Lock-Up Agreement. The restrictions under the Lock-Up Agreement will be subject to limited exceptions, including that Consideration Shares may be disposed of in sales with the net proceeds used to satisfy claims, if any, arising from the indemnities provided by the Seller under the Sale and Purchase Agreement.

### 1.3 Proposed Timetable

The proposed timetable for Completion and the issue of the Completion Shares and the Placement Shares is as follows:

<b>General Meeting</b>	12 July 2017
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<sup>1</sup> It is assumed that Emefcy Shares are issued for an issue price of A\$0.85 per share and an exchange rate of 0.7390 for US\$ 20,000,000.

<sup>2</sup> The number of issued shares after the Proposed Transactions are fully implemented may be different depending on the prevailing exchange rate at the time when the Placement Shares are issued and whether there are any claims arising from the indemnity provisions under the Sale and Purchase Agreement.

**Record Date** anticipated to be 10 July 2017

**Expected Date of Completion of Proposed Transactions** 14 July 2017

**Expected date for issue of Completion Shares and Placement Shares** 14 July 2017

The timetable is indicative only and subject to change. The Company reserves the right to vary the above dates, subject to the Listing Rules and the Corporations Act.

## **2 TRANSACTION SUMMARY AND RELEVANT CONSIDERATIONS**

### **2.1 Background**

On 26 May 2017, the Company announced that it had entered into the Sale and Purchase Agreement to acquire all of the LLC Interests in RWL, subject to certain conditions, as well as the Private Placement Letter Agreement with the Seller. Under the Proposed Transactions:

- the Company will acquire the LLC Interests in RWL in consideration for issuing the Consideration Shares<sup>3</sup> to the Seller (or its Related Bodies Corporate); and
- the Company will issue the Placement Shares to the Seller (or its Related Bodies Corporate) for total cash consideration of US\$20,000,000.

RWL is a privately held company which is ultimately controlled by Mr Ronald S Lauder. It is a limited liability company formed in the State of Delaware with its business address in New York City, United States of America. The Seller, a corporation incorporated in the State of Delaware with its business address in New York City, United States of America, is the sole member of RWL.

RWL owns a number of wholly owned subsidiaries, including RWL Israel, RWL Middle East, RWL Italy, RWL USA and RWL Investments. It also currently holds a majority equity interest in RWL Argentina which in turn holds a majority equity interest in Acquavit Ltda. (a Brazilian company). These entities together with other Subsidiaries of RWL are collectively referred to in this Explanatory Memorandum as the "RWL Water Group".

### **2.2 Proposed Transactions**

The Proposed Transactions consist of two components:

- the acquisition of the LLC Interests in consideration for issuing the Consideration Shares; and
- the issue of the Placement Shares to raise US\$20,000,000.

The Company has entered into the Sale and Purchase Agreement which provides for the proposed acquisition of all of the LLC Interests in RWL from the Seller, in consideration for issuing 100,500,000 Consideration Shares and payment of US\$10,000 Completion Cash Consideration to the Seller. The Seller will be restricted from selling, transferring or otherwise disposing of any Consideration Shares for a two year period commencing on Completion, subject to limited exceptions, including to satisfy indemnity claims against the Seller under the Sale and Purchase Agreement.

The Company has also entered into the Private Placement Letter Agreement with the Seller, to issue the Placement Shares to the Seller (or its Related Bodies Corporate) for total consideration of US\$20,000,000 and at an issue price of A\$0.85 per share. Subject to Resolutions 1, 2 and 7 being passed, the Company will issue Placement Shares in an amount equal to US\$20,000,000 (converted into Australian dollars at the foreign exchange rate published by the Reserve Bank of Australia as at 10.00 a.m. (AEST) on the date of Completion) divided by the agreed price of A\$0.85 per share.

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<sup>3</sup> In addition to issuing the Consideration Shares, the Company will pay the Completion Cash Consideration of US\$10,000 under the Sale and Purchase Agreement in consideration for acquiring the LLC Interests.

## 2.3 Strategic rationale for the Merger by the Acquisition of RWL

Both Emefcy and RWL share a vision to combine to build a global provider of a comprehensive suite of decentralized water solutions to be named “Fluence”. Key factors supporting the intended merger by the acquisition of RWL including:

- The global need for clean water and water treatment solutions is growing rapidly, driven by increasing population and degradation of water systems as a consequence economic development.
- The existing suite of water treatment solutions and products cover not only very broad geographies but also highly diverse industries. This is coupled with the pipeline of new products being developed by Emefcy to address identified market opportunities.
- RWL’s packaged plant solutions in combination with the Emefcy technology, represent innovation in a cost-competitive setting specifically designed for decentralised locations, municipalities and a range of industry applications.

Over time, the aim of Fluence is to establish increased revenue from recurring, annuity-type income. This will lessen the dependence on project-specific revenue which, while still in a growth phase in many geographies, will be augmented with long term income in the form of Build Operate Transfer (**BOT**) and Reuse as a Service (**RaaS**) type projects. With these contracts typically spanning 10-30 years, there is a substantial potential opportunity to create layers of revenue, with the recurring income representing a substantial, pre-determined amount for the duration of the contract.

Each partner brings a range of complementary strengths.

RWL has strong capabilities in system design, construction, project management and deployment. Its brand recognition and marketing strength has already resulted in thousands of deployments in over 70 countries around the world. RWL's packaged plant solutions enable delivery of water treatment solutions within rapid timeframes. For example, in 2016 the Richards Bay Water Authority in Durban, South Africa was experiencing a water shortage and needed rapid deployment of a water desalination solution to process approximately 10,000 cubic metres of water per day. With a project value of approximately US \$6.0 million, RWL Israel was able to supply, install and commission 10 Nirobox containerised desalination units from its Israel production facility and commence treated water production within 6 months of receiving a confirmed order.

Meanwhile, Emefcy has developed a breakthrough technology that the Board believes is “game-changing” in its ability to reduce wastewater treatment operating costs.

As a combined entity, the Board believes that Fluence would be able to offer customers fully functional “turnkey” solutions that are highly differentiated by proprietary technology, accelerating deployment and commissioning of new plants, particularly important in the deployment of rural wastewater treatment plants in China. The ability to sell packaged turnkey solutions is estimated to substantially shorten Fluence’s sales and implementation cycles, and be attractive to its target customer base. With a differentiated solution that offers economic advantages, the future Fluence could be more competitive while also capturing higher margins.

The parties have already been working together as part of a strategic alliance to pursue the large China market opportunity. Through working together in that alliance, both teams quickly came to the realization that they could potentially achieve a more powerful market position as a combined entity.

The table below illustrates the key customer segments and services that Fluence could serve upon consummation of the merger by the acquisition of RWL.

Client Sector Base					
Industrial	Municipal	Mining	Oil & Gas	Power	Food & Beverage
Water Markets Served					
Desalination	Water	Wastewater	Waste-to-Energy	Reuse & Recovery	Food & Beverage
<ul style="list-style-type: none"> <li>Delivery of desalination plants for long or short term solutions</li> <li>Read-to-use modular system can be pre-assembled on a skid or containerised</li> </ul>	<ul style="list-style-type: none"> <li>Provide custom designed and advanced treatment plants specialising in mechanical and chemical treatment processes, disinfection, removal of toxic substances, ultrafiltration, reverse osmosis and biological potabilisation</li> </ul>	<ul style="list-style-type: none"> <li>Provide custom and standard packaged wastewater treatment plants, using 90% less energy, halving opex, designed to treat influents for either reuse or discharge</li> </ul>	<ul style="list-style-type: none"> <li>Provide delivery services for anaerobic treatment systems</li> <li>Customised plants for the production of biogas, starting from analysis of the type and quantity of biomass to be treated</li> </ul>	<ul style="list-style-type: none"> <li>Worldwide experience in the advanced treatment of wastewater and process water to the required purity levels, such that the water can be reused in industrial, agricultural, or municipal processes</li> </ul>	<ul style="list-style-type: none"> <li>Custom design of food processing solutions using membrane separation, food grade media, ion exchange resins, and absorbent resins</li> <li>Provider in the design and implementation of 4SMB chromatography plants for the purification of fruit juices</li> </ul>

## 2.4 About RWL and RWL Water Group

RWL Water Group is a global water treatment enterprise providing water, wastewater and wastewater-to-energy solutions for industrial and municipal clients. It serves as a fully-integrated platform with manufacturing, financing, installation, operating, consulting and maintenance capabilities for customers worldwide. It has global operations, including operating subsidiaries in the United States, Israel, Italy, Brazil, Middle East and Argentina.

Founded by Mr Ronald S Lauder in 2010, RWL Water Group is recognised as a fast-growing water solutions company, with more than 7,000 reference sites and possessing strong customer references in more than 70 countries worldwide. RWL Water Group was recently nominated for the 2017 Global Water Awards in the category of "Water Company of the Year".

RWL Water Group operates in multiple jurisdictions. Several of its main operating entities have been in business for more than 15 years and have been integrated into RWL Water Group by means of acquisitions. Two significant projects, PDVSA and San Quintin, operate out of Venezuela and Mexico respectively.

RWL, its main operating entities and their major projects are as follows.

### (a) *RWL (RWL Water LLC)*

RWL is the holding entity of RWL Water Group. RWL develops strategies for RWL Water Group globally, coordinates and supports RWL Water Group's sales and operations activities, operates the international sales organization and implements and directs the marketing activities and overall marketing strategy. RWL also has financial control responsibilities for RWL Water Group and sets internal accounting policies. RWL oversees the individual subsidiaries' budgets and approves or disapproves of all projects larger than US\$2 million. In addition, all operating company projects that require a significant investment or a long-term involvement (i.e. lease or operation and maintenance contracts), are approved and overseen by RWL.

(b) *RWL Argentina*

RWL Argentina represents RWL in South America and is in charge of the sales and marketing activities for the complete technology and products portfolio of RWL Water Group in its territory. RWL Argentina operates as a specialist in the development, production and service of custom, advanced-technology systems for the treatment and reuse of water and wastewater. RWL Argentina's products allow users to optimize the physical, chemical and microbiological characteristics of water. The systems that RWL Argentina creates are suitable for multiple applications, ranging from softening and water reuse to seawater desalination. RWL Argentina was founded in Argentina in 1993 by five engineering professors who specialized in the production of ozone generators for the beverage industry. It is headquartered in Mar del Plata, in the province of Buenos Aires, Argentina.

RWL Argentina serves three major markets: the large/mid-scale industrial market, the beverage market and the commercial green building market. The industrial market is comprised of power, agricultural, irrigation, mining and oil and gas needs. The commercial green building market has similar but smaller needs when compared with the industrial market. RWL Argentina provides solutions to these industries through in-house manufacturing of customized systems. In addition, it provides reverse osmosis pre-treatment systems for Coca-Cola bottling companies in South America.

RWL Argentina is an experienced provider of water treatment systems. It is a member of the International Desalination Association, the Adventist Development and Relief Agency, the American Membrane Technology Association, and the International Ozone Association]. Over the last 20 years, RWL Argentina has demonstrated the ability to effectively develop and market its custom products throughout South America.

On 1 August, 2013, RWL and RWL Israel jointly acquired 70% of the shares of RWL Argentina. The remaining 30% is currently owned by the original two owners, who also remain at RWL Argentina in senior management roles. On 26 May 2017, RWL signed a Stock Purchase Agreement with the owners of the 30% minority interest in RWL Argentina (**Argentina Minority Owners**) for the buyout of their interests in RWL Argentina by RWL. The consideration for the sale includes the payment by RWL to the Argentina Minority Owners of US\$300,000, the issue by Emefcy at Completion to a trustee on behalf of the Argentina Minority Owners of a number of Emefcy Shares equal to US\$4,018,000 (converted into Australian dollars at the foreign exchange rate published by the Reserve Bank of Australia as at 10.00 a.m. (AEST) on the date immediately before Completion), and a contingent payment of US\$300,000 after Completion (subject to the satisfaction of certain conditions). Completion of the buyout of such minority interest in RWL Argentina is conditional on, and will occur simultaneously with, Completion.

The main projects of RWL Argentina include:

- (i) **Puerto Deseado:** RWL Argentina built a seawater reverse osmosis desalination plant in Puerto Deseado, Province of Santa Cruz, with a contract value of US\$3,003,312. The construction of the plant has been completed and the plant currently operates.
- (ii) **Caleta Olivia:** In May 2015, RWL Argentina was subcontracted in respect of a seawater reverse osmosis desalination plant in Caleta Olivia, Province of Santa Cruz, with a contract value of US\$12,606,630. The construction of the plant has been completed and the plant commenced operations in March 2017.
- (iii) **PBB Polisor:** In October 2015, RWL Argentina was commissioned to build the turn-key construction of an ultrafiltration water system, with a contract value of US\$1,541,528.

In January 2017, RWL Argentina acquired 70% of a business in Brazil.

(c) *RWL Israel*

RWL Israel represents RWL in Israel and is in charge of the sales and marketing activities for the complete technology and products portfolio of the group in its territory. RWL Israel operates as RWL Water Group's centre of competence for the design and manufacture of seawater and brackish water desalination systems, as well as advanced membrane-based water and wastewater treatment systems. RWL Israel offers complete turnkey solutions from design and manufacture to commissioning and after-sales service. RWL Israel, which was the first subsidiary acquired by RWL, is the project management powerhouse for larger RWL projects.

RWL Israel was originally formed in 1990 in Karmiel, Israel. Since its formation, its mission has been to treat and supply water wherever it is needed. As such, RWL Israel supplies water and wastewater solutions to customers worldwide, including the Middle East, North and South America, Asia, Australia, Africa and Europe. RWL Israel takes pride in its flexible approach that allows each system to be customized to every client's unique requirements, site-specific conditions and required standards.

In May 2015, RWL Israel signed an agreement for the set-up of a joint venture with Quimica Apollo, S.A. de C.V., a Mexican entity in the field of chemicals trading and operation of water and wastewater treatment plants. The company was established on June 27, 2016. The company provides integrated water and wastewater treatment services to the industrial sector in Mexico.

(d) *RWL Italy*

RWL Italy represents RWL in Italy and Central Europe and is in charge of the sales and marketing activities for the complete technology and products portfolio of the group in its territory. Moreover, RWL Italy acts as RWL Water Group's centre of competence for industrial water treatment, biogas and biomass plants and anaerobic wastewater treatment.

RWL Italy was originally formed in 1998 in Padova, Italy under the name Eurotec WTT S.r.l. Since its formation, RWL Italy has mainly served clients in the food industry. Its three main business segments as RWL Water Group's centre of competence are primary water, food-and-beverage treatment and waste-and-wastewater treatment.

On 22 September 2011, RWL acquired a 67% interest in RWL Italy. On 13 January 2017, RWL purchase the remaining 33% owned by the original two owners and founders, who remain at RWL Italy in senior management roles. On 2 May 2013, RWL Italy formed a joint venture company, Maiveo S.A.S. (Maiveo) together with local partners in France. The remaining 40% of RWL Water France was acquired by RWL Water Italy on 17 May 2016. The company is based in Ancenis, France and is primarily focused on serving the water and wastewater markets in France.

(e) *RWL USA*

RWL USA represents RWL in the United States and Canada and is in charge of the sales and marketing activities for the complete technology and products portfolio of the group in its territory. Moreover, RWL USA acts as RWL Water Group's centre of competence globally for multiple product lines that include aeration equipment, eco aeration, and aerobic wastewater treatment systems.

Since RWL USA's formation, the products have been designed and engineered in-house. In 2014, RWL USA acquired the assets of Ohio-based Tipton Environmental International, Inc. ("Tipton") to add packaged wastewater treatment product offerings. The Tipton series now exists as a broad packaged plant product line within RWL.

RWL USA holds several patents that solidify the technological advantages of its products. All aerators are designed, engineered and built in-house. RWL USA utilizes three in-house water test tanks to perform quality control checks of its aeration products.

RWL USA has installed more than 4,500 systems in over 70 countries worldwide. RWL USA was originally formed in 1987 and is headquartered in Minneapolis, Minnesota. RWL acquired an 80% interest in RWL USA on November 22, 2010 and acquired the remaining 20% from RWL USA's founder on December 20, 2016.

(f) *RWL Middle East*

RWL Middle East was set up in 2014 in Dubai to expand its footprint in the region. RWL Middle East is a joint participant with RWL Israel in a project to build a desalination plant. The project is currently in the design and procurement stage. Equipment is currently being fabricated for the project.

(g) *RWL Investments*

RWL Investments is an investment entity set up by RWL in the United Kingdom in October 2015 for the purpose of managing projects and investments in a tax efficient manner. It is wholly owned by RWL and its subsidiaries. RWL Investments owns an approximately 51% interest in a special purpose Mexican company, "Desaladora Kenton SA de CV". This special purpose company has the contractual rights to supply water from the San Quintin project in Mexico (under development and subject to finance) to the local water utility for 30 years.

The San Quintin Mexico BOT Project is a build-operate-transfer project for the desalination plant in San Quintin, Mexico, located approximately 250 kilometres (155 miles) from the US and Mexico border. It is expected to consist of the construction of a 22,000 cubic metre per day (approximately 5.8 MGD) seawater desalination plant and operation of the plant for 30 years. The Public Private Partnership Agreement for this project was signed in January 2016. The Environmental Impact Study was submitted to Semarnat (Ministry of Environment and Natural Resources) in July 2016 and the environmental permit was subsequently received in March 2017. Financial close is expected during the 3<sup>rd</sup> quarter of 2017. Commencement of construction will start soon thereafter and is expected to last for 18-24 months.

(h) *PDVSA Agricola*

On June 30 2014, PDVSA Agricola and RWL Argentina entered into an agreement to set out the framework for the supply of wastewater treatment and reuse plants. Under the agreement, RWL Argentina and RWL Water Israel were required to design and manufacture the products for the installation of the plants and provide advice in connection with the engineering documents and the different systems for the treatment of wastewater. The agreement is governed by Venezuelan law and subject to the jurisdiction of Venezuelan courts. The total amount involved in the agreement is US\$191,000,000, of which PDVSA Agricola advanced US\$95,545,000, as a prepayment to RWL Water Argentina.

To the extent that the prepayments advanced by PDVSA Agricola have not been applied by RWL Argentina for some other purposes, the funds should be available to satisfy RWL Argentina's obligations under the agreement in the event that RWL Argentina does not deliver on the project.

On March 10, 2016, PDVSA Agricola terminated the Agreement alleging a breach by RWL Argentina. On December 28, 2016, however, after following extensive discussions with the customer, PDVSA Agricola informed RWL Argentina that its board had decided to formally continue the project with a scope of work reduced to US\$95,545,000 (with advanced payment). PDVSA has reiterated their commitment to proceed with the project work and has acknowledged receipt of invoices/documents for completed work and some ancillary costs. A definitive timeline for progressing the project and formal acceptance of the claim amount is expected to be resolved during July 2017.

## 2.5 RWL's Technologies

### (a) *Drinking Water Treatment*

RWL Water Group provides both standard and custom-designed water treatment solutions that can deliver high-quality, safe drinking water to municipalities in densely populated areas, as well as remote communities. Its focus lies in ensuring safe, dependable, and affordable drinking water, supported by decades of hands-on experience at hundreds of water treatment facilities around the world.

RWL Water Group offers a wide range of water treatment solutions in order to produce drinking water, for example:

- Clarification and purification
- Softening
- Biological potabilization
- Specific treatments (removal of arsenic, uranium, nitrates, activated carbon filtration, etc.)
- Demineralization with ionic exchange resins
- Disinfection
- Desalination
- Sludge treatment

### (b) *Desalination*

**Municipal Water** - To ensure a consistent and reliable water supply, many communities, water authorities, and private companies are turning to desalination. RWL Water Group's tailor-made and standard desalination systems can produce drinking water from almost any source, including the sea, as well as surface water and brackish water. RWL Water Group also designs, manufactures, and supplies modular, containerized water treatment plants for the municipal and industrial sector. The containerized modules, which come already assembled, wired, and plumbed, are specially designed for fast and easy installation and commissioning.

**Process Water Desalination** - RWL Water Group designs, manufactures, and commissions advanced systems for the production of process water. The systems are able to treat water from a wide variety of water sources, including brackish water and seawater, and treat turbidity, salinity, and a wide range of contaminants, including arsenic, nitrates and more. RWL Water Group's desalination systems supply process water for a wide variety of applications, including demineralized water for high-pressure steam boilers, permeate for cooling and other uses.

**Seawater Desalination** - Seawater Reverse Osmosis (SWRO) systems can be tailor-made based on water quality requirements and site-specific feed-water characteristics. RWL Water Group supplies small-to-large desalination plants with capacities of 5 to 100,000 m<sup>3</sup> per day. To reduce costs, energy recovery is undertaken with pressure exchangers or turbine pumps.

Brackish Water Desalination - Brackish Water Reverse Osmosis (BWRO) systems are able to treat water from a wide variety of water sources, including surface water and wells, and can treat turbidity, salinity, and a wide range of contaminants, including arsenic, nitrates, and more.

(c) *Wastewater Treatment Solutions*

Industrial and municipal wastewaters contain various types of pollutants, such as dissolved organic matter, fats and oils, nitrogen compounds, suspended solids, heavy metals, surfactants, and more. RWL Water Group designs, builds, and operates treatment plants in full compliance with environmental regulations, meeting specific customer needs and maximizing the cost-effectiveness of the investment. It also supplies standardized, packaged wastewater treatment systems, which are transportable and easily installed at the site. Packaged wastewater treatment systems can treat a range of wastewaters to match specified discharge limits.

Industrial Wastewater and Reclamation Desalination - RWL Water designs, manufactures, and supplies wastewater treatment and reclamation systems for industrial use. Wastewater reclamation lets factories minimize discharge and save on water costs through the reuse of effluent in various processes, and lets municipalities reuse effluent from biological wastewater treatment plants for irrigation.

RWL Water Group offers a wide range of treatment solutions, depending on the wastewater characteristics, including:

- Aerobic biological treatment
- Nitrogen and phosphorous treatment
- Tertiary treatment
- Anaerobic treatment and biogas production

In addition to tailor-made treatment solutions, RWL Water Group offers the following standardized products:

- Packaged Wastewater Treatment Plants - The RWL Water Group supplies packaged and field-erected wastewater treatment plants for municipal, commercial, and many industrial wastewater applications. These plants are reliable, odor-free, portable, reusable, partially preassembled, compact, self-contained, custom-configured, and designed specifically for each project.
- Aeration Equipment - RWL Water Group also offers a complete line of aeration equipment, including aerators, mixers, diffusers, and fountains to improve the quality of water and wastewater.

(d) *Recovery and Reuse*

Water scarcity is increasingly driving innovation. Wastewater, which was previously considered a disposal liability, can now become a valuable resource. RWL Water Group has worldwide experience in the advanced treatment of wastewater and process water to purity levels that allow its reuse in industrial, agricultural, or municipal processes. Its energy-efficient water treatment solutions can produce pure and ultrapure water for reuse in power generation, cooling towers and district cooling systems, beverage bottling, food production, agriculture irrigation, and many other industries.

(e) *Waste-to-Energy Solutions*

RWL Water Group's experience, skills, and attention to energy savings have led to the optimal completion of the industrial cycle by recycling process waste. Biomass treatment by anaerobic digestion produces biogas, which allows the simultaneous generation of electricity and thermal energy. With RWL Water Group's technological solutions, ordinary livestock manure, vegetable silage, and more complex biomasses such as food-industry waste (for example from slaughterhouses, whey and beer and fruit juice production) can become resources.

RWL Water Group provides both traditional nitrification-denitrification and a more innovative, completely autotrophic biological process that does not require organic carbon. Both processes convert the nitrogen into gaseous nitrogen without using acids or other chemicals, and without generating any by-product.

(f) *Food and Beverage Processing*

RWL Water Group has more than 30 years of experience in the custom design of treatment plants using ion-exchange resins and absorbent resins for food processing solutions. The cost-effective and innovative solutions are ideal for wine, fruit juices, whey demineralization, and cane sugar decolorizing.

- Demineralization of Fruit Juices – RWL Water Group's demineralization processes offer advantages, including reduced dilution of treated juices and a high-quality end product, with very low reagent consumption.
- Recovery of Organic Acids and Natural Fruit Colors - RWL Water Group recovers organic acids and natural colors, including malic acid, tartaric acid and enocyanin, from fruit juices.
- Tartaric Stabilization - RWL Water Group performs tartaric stabilization of wine through ionic exchange with resins. This process reduces initial investment and costs less to operate than cold stabilization, which is the standard process.
- Decolorizing - RWL Water Group builds plants for polyphenol content reduction and for the complete decolorizing of grape must, sugar cane, and fruit juices. This results in control of juice color, as well as the recovery of natural colorant (enocyanin) without the use of alcohol.
- Debitting - RWL Water Group's resin based debittering process removes the bitter taste from fruit juices such as orange, lemon, and pomegranate.
- Chromatographic Demineralization - 4SMB (Four Simulated Moving Bed) chromatography, a technique originally used for the purification of molasses in sugar refineries, uses water only for separating sugars from salts. RWL Water Group applies this technology, on a smaller scale, to the demineralization of fruit concentrates, whey and sugar.
- Chromatographic Separation - 4SMB chromatography can be used to separate sugars like glucose, sucrose, and fructose from demineralized concentrated must (DCM), or from concentrated apple juices.

### 3 DETAILS OF RESOLUTIONS – GENERAL MEETING

#### 3.1 Resolutions 1, 2 and 7 – Issue of Consideration Shares and Placement Shares and Acquisition of Relevant Interest in Consideration Shares by the Company

(a) *Section 606 of the Corporations Act*

Under section 606(1) of the Corporations Act, a person is prohibited from acquiring a Relevant Interest in issued voting shares of a listed company through a transaction in relation to securities entered into by or on behalf of the person if, because of the transaction, that person's or someone else's Voting Power in the company increases to more than 20%, unless one of the exceptions in section 611 of the Corporations Act applies.

Generally, under section 608, a person has a Relevant Interest in securities if they:

- are the holder of the securities;
- have power to exercise, or control the exercise of, a right to vote attached to securities; or
- 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.

The Voting Power of a person is determined under section 610 of the Corporations Act. It involves calculating the number of voting shares in the company in which the person and the person's Associates have a Relevant Interest.

A person (second person) will be an "Associate" of the other person (first person) if:

- the first person is a body corporate and the second person is:
  - a body corporate the first person controls;
  - a body corporate that controls the first person; or
  - a body corporate that is controlled by an entity that controls the first person;
- the second person has entered or proposed to enter into a relevant agreement with the first person for the purposes of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- the second person is a person with whom the first person is acting, or proposing to act, in concern in relation to the company's affairs.

Accordingly, if the Proposed Transactions proceed and the Company issues the Consideration Shares and Placement Shares to the Seller (or its Related Bodies Corporate), the Seller would be in contravention of section 606 in the absence of an exemption applicable to it. The Company itself will also acquire a Relevant Interest in its own Shares (which will require approval from Shareholders) as a result of the voluntary escrow arrangements in respect of the Consideration Shares that have been agreed with the Seller.

(b) *Approval under section 611, item 7 of the Corporations Act*

Section 611 of the Corporations Act sets out various exceptions in which acquisitions of a Relevant Interest are exempt from the prohibition under section 606. Specifically, section 611, item 7 provides that an acquisition will be exempted from the prohibition if approved by a resolution passed at a general meeting of the company in accordance with the requirements of section 611, item 7.

Resolutions 1, 2 and 7 seek the approval of Shareholders for the issue of 100,500,000 Consideration Shares and 31,840,000<sup>4</sup> Placement Shares to the Seller (or its Related Bodies Corporate), and also the acquisition of a Relevant Interest by the Company in the Consideration Shares by virtue of entering in voluntary escrow arrangements with the Seller in the Lock-Up Agreement, for the purpose of satisfying section 611, item 7 of the Corporations Act.

Section 611, item 7 of the Corporations Act requires that no votes are cast in favour of the Resolutions 1, 2 and 7 by:

- (i) the person proposing to make the acquisition and their Associates; or
- (ii) the persons (if any) from whom the acquisition is to be made and their Associates.

Section 611, item 7 of the Corporations Act also requires that the Shareholders be given all information known to the person proposing to make the acquisition or their Associates, or known to the Company, that is material to the decision on how to vote on the resolution. In addition, ASIC Regulatory Guide 74 *Acquisitions approved by members (RG 74)* also sets out the disclosure requirements which should be considered by Shareholders for the purposes of approving the issue of the Consideration Shares and the Placement Shares under section 611, item 7 of the Corporations Act. The following paragraphs set out information required to be provided to the Shareholders under section 611, item 7 and RG 74.

- (i) Identity of the persons proposing to make the acquisitions and their Associates

The Consideration Shares and the Placement Shares will be issued to the Seller (or its Related Bodies Corporate) and the information about the Seller is provided in Section 1. Mr Lauder is an Associate of the Seller. The information about Mr Lauder is provided in Section 2.1.

As discussed above, the Company itself will also acquire a Relevant Interest in the Consideration Shares because of the voluntary escrow arrangements with the Seller.

Although the Company will not own any of the Consideration Shares held by the Seller (or have any ability to control how the Consideration Shares are voted), the Company will technically be considered to have acquired a Relevant Interest in the Consideration Shares as a result of the negative control rights in the Lock-Up Agreement, and this acquisition by the Company also requires approval from Shareholders under item 7, section 611 of the Corporations Act.

- (ii) Maximum extent of the increase in the Seller's Voting Power

As at the date of this Explanatory Memorandum, the Voting Power held by the Seller and its Associates is nil. The Consideration Shares are comprised of 80,400,000 Completion Shares which will be issued at Completion and 20,100,000 Holdback Shares which are to be held back from being issued for at least 12 months after Completion. The issue of the Holdback Shares will be subject to claims, if any, arising from the indemnities provided by the Seller under the Sale and Purchase Agreement. The Placement Shares will be issued to the Seller (or its Related Bodies Corporate) at Completion.

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<sup>4</sup> Assuming that Emefcy Shares are issued for an issue price of A\$0.85 per share and an exchange rate of 0.7390 for US\$ 20,000,000.

The following table summarises the maximum number of Emefcy voting shares to be acquired by the Seller (or its Related Bodies Corporate) under the Proposed Transactions.

<b>Event</b>	<b>Voting Shares before Event</b>	<b>Voting Shares issued at Event</b>	<b>Voting Shares after Event</b>	<b>Seller's Voting Power</b>
Issue of Completion Shares	259,001,054	80,400,000	339,401,054	23.69%
Issue of Placement Shares	339,401,054	31,840,000 <sup>5</sup>	371,241,054	30.23%
Issue of Holdback Shares <sup>6</sup>	371,241,054	20,100,000	391,341,054 <sup>7</sup>	33.82%

While the Company will acquire a Relevant Interest in the Consideration Shares, the Company will not obtain any power to vote in respect of any of the Consideration Shares.

(iii) Changes to the Company

Upon successful Completion of the Proposed Transactions, the Company proposes that Dr Ramesh will become a non-executive Director of the Company and Mr Charrabé is to be appointed as Managing Director and Chief Executive Officer of the Company. In that capacity, Mr Charrabé will manage the businesses and operations of the Merged Group. Other proposed additions to the Company's senior management team are described in Section 6.1. The Board will then be comprised of 7 Directors, with the five existing Directors of Emefcy and Mr Charrabé and Dr Ramesh.

In relation to the current management team of the Company, Mr Irving will continue to serve as the Executive Chairman and Mr Eytan Levy will continue in the role of Executive Director and will be appointed as President of the Products and Innovation Group.

At Completion, the Company's business will be combined with that of the RWL Water Group and the Company will receive the US\$20,000,000 cash injection from the Seller (or its Related Bodies Corporate) through the issue of the Placement Shares. The Merged Group will then seek to integrate the business of the Company with the business of RWL Water Group.

This integration might result in the redeployment of assets or employees. A detailed functional review of the Merged Group will be undertaken following Completion and, therefore, the extent of any changes cannot be specifically determined at this stage.

<sup>5</sup> It is assumed that Emefcy Shares are issued for an issue price of A\$0.85 per share and a USD exchange rate of 0.7390 for US\$20,000,000. Therefore, the final number of Placement Shares may be different depending on the prevailing exchange rate at the time when the Placement Shares are issued.

<sup>6</sup> It is assumed that there are no claims arising from the indemnity provisions under the Sale and Purchase Agreement.

<sup>7</sup> The number of shares on issued after the Proposed Transactions are fully implemented may be different depending on the prevailing exchange rate at the time when the Placement Shares are issued and whether there are any claims arising from the indemnity provisions under the Sale and Purchase Agreement.

Any detailed changes proposed to be made to the Company's business and operations are set out in Section 6 *Information about the Merged Group*.

(iv) Interest of the Directors in the Proposed Transactions

The Directors have no interests associated with the Proposed Transactions other than Options that are proposed to be issued if Resolution 6 is passed.

(v) Directors' recommendations

Each Director recommends that the Shareholders vote in favour of Resolutions 1, 2 and 7.

Each Director believes that the advantages of the Proposed Transactions outweigh the disadvantages and risks associated with the Proposed Transactions. The reasons for and against the Proposed Transactions and risks are set out in section 2 of this Explanatory Memorandum.

Each Director intends to vote in favour of Resolutions 1, 2 and 7 in respect of the Shares that they hold or control.

(vi) Independent Expert's Opinion

The Company engaged an independent expert, PPB Advisory, to undertake an analysis of whether the Proposed Transactions are fair and reasonable when considered in the context of the interests of the Shareholders (other than those involved in the proposed allotment or purchase or associated with such persons).

PPB Advisory concluded that, in the absence of a superior offer, the Proposed Transactions are fair and reasonable to the non-associated Shareholders.

A copy of the Independent Expert's Report by PPB Advisory is contained in Annexure A of this Notice of Meeting.

The passing of each of Resolutions 1, 2 and 7 are conditional upon each of the other Resolutions being approved by the Shareholders. Accordingly, if you intend to vote in favour of any of Resolutions 1, 2 or 7, you should vote in favour of each of Resolutions 1, 2 and 7.

Resolutions 1, 2 and 7 are ordinary resolutions.

### **3.2 Resolution 3 - Approval of Appointment of Dr Rengarajan Ramesh as a Director and Issue of Options**

(a) *Approval for Appointment of Dr Ramesh as a Director under Resolution 3(a)*

Resolution 3(a) seeks shareholder approval to appoint Dr Ramesh as a Director subject to Resolutions 1, 2 and 7 being passed. Shareholders are entitled to appoint a Director in accordance with clause 4.2(b) of the Company's constitution. The Company received a nomination of Dr Ramesh as a director by Pond Venture Nominees III Limited and a consent to that nomination signed by Dr Ramesh on 18 May 2017.

Dr Ramesh is currently a non-executive director and Technical Advisor of RWL. He brings over 30 years of global operating, acquisition and technology experience. He previously held senior management positions at GE Water & Process Technologies including Chief

Technology Officer. He played a key role in the development and implementation of the strategy that led to the creation of GE's US\$2.5 billion global water platform.

The appointment of Dr Ramesh to the Merged Group Board is pivotal in integrating Emefcy's business with RWL Water Group's business. Having served as a director on RWL's board, he will offer the Merged Group Board his valuable experience in the implementation of the business strategies of the Merged Group. His background in engineering and technology will also assist the Merged Group with its further development of water-related technology.

(b) *Approval for Issue of Options to Dr Ramesh under Resolution 3(b)*

Resolution 3(b) is seeking Shareholder approval for grant of 1,500,000 Options to Dr Ramesh.

Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party. For the purposes of Listing Rule 10.11, a related party includes a director of the company and a person who ASX believes, or has reasonable grounds to believe, is likely to become a related party of the company in the future.

Dr Ramesh is a related party to the Company because he is proposed to become a Director of the Company upon Completion of the Proposed Transactions. On this basis, the Company believes that he is likely to become a related party of the Company.

Section 208 of the Corporations Act provides that a public company must not, subject to certain exceptions, give a financial benefit to a related party without approval of the company's members. Section 211 of the Corporations Act provides an exception to the requirement to obtain shareholder approval for giving a financial benefit to a related party, where the financial benefit is remuneration and reasonable given the circumstances.

The Company considers that the proposed issue of the Options will be reasonable remuneration to Dr Ramesh to compensate for his acceptance of the position as the Director of the Company and motivate him to perform to his best ability.

The exercise price of these Options will be the market price of the Shares on the date on which these Options are issued, which is expected to be the date of Completion. These Options will vest 2 years after the date of their issue and will expire at the end of 4 years from the date of their issue.

In accordance with Listing Rule 10.13, the following information is provided in connection with Resolution 3(b).

- (i) The name of the person - Dr Rengarajan Ramesh
- (ii) The maximum number of securities to be issued or the formula: 1,500,000 Options and each Option will be exercisable for one Share.
- (iii) The date by which the entity will issue the securities: within one month after the Meeting, at Completion of the Proposed Transactions.
- (iv) If the person is not a director, a statement of the relationship between the person and the director: Dr Ramesh will become a Director.
- (v) The Options will be issued for nil cash consideration.
- (vi) A voting exclusion statement applies to this Resolution and it is included in the proposed Resolution in the Notice of Meeting.

(vii) No funds will be raised through the issue of the Options.

Resolutions 3(a) and 3(b) are separate ordinary resolutions and are subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of Resolutions 3(a) and 3(b).

### **3.3 Resolution 4 - Approval to amend a material term of the Employee Share Option Plan**

Listing Rule 7.1 imposes a restriction on the number of Equity Securities issued without shareholder approval during the 12 month period, if the number of these securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period (**15% Placement Capacity**). Listing Rule 7.4 provides that an issue of Equity Securities can be treated as having been made with shareholder approval for the purposes of Listing Rule 7.1 if the holders of ordinary securities subsequently approve it and the issue did not breach Listing Rule 7.1 at the time of the issue.

The number of Equity Securities which are allowed to be issued without shareholder approval is calculated in the following formula under Listing Rule 7.1 (**7.1 Formula**).

**(A x B) - C**

Where:

**A** is the number of fully paid ordinary shares on issue 12 months before the date of issue or agreement:

- plus the number of shares issued in the previous 12 months under an exception in Listing Rule 7.2;
- plus the number of partly paid shares that became fully paid in the 12 months;
- plus the number of shares issued in the previous 12 months with approval of Shareholders under Listing Rules 7.1 and 7.4; and
- less the number of shares cancelled in the previous 12 months.

**B** is 15%

**C** is the number of Equity Securities issued or agreed to be issued in the 12 months before the date of issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

One of the exceptions to Listing Rule 7.1 (as set out in Listing Rule 7.2) is Exception 9(b). The relevant exception applies where an issue of Equity Securities is made under an employee incentive scheme if, within the three years before the date of the issue, shareholders have approved the issue under the employee incentive scheme as an exception to Listing Rule 7.1.

Resolution 4 seeks Shareholder approval to amend the ESOP, which was approved by Shareholders at the general meeting held on 17 November 2015. Under the ESOP, the maximum number of Options that can be issued must not exceed 5% of the total number of Shares then on issue.

Given the significant increase in the number of employees upon Completion of the Proposed Transactions, it is proposed that the capacity to issue Options under the ESOP will need to be increased from 5% to 6% of the total number of Shares then on issue. The ESOP, with the increased capacity, will assist the Company in attracting, retaining and motivating employees and officers of the Merged Group.

(a) *Summary of the Company's current ESOP*

Eligible employees and other such persons that the Directors see fit will be eligible to participate in the ESOP. The allocation of options to each employee is in the discretion of the Board having regard to skills, experience, length of service, remuneration level and such other criteria as the Directors consider appropriate in the circumstances. Options may be offered under the ESOP without a prospectus but must not exceed 5% of the then current number of Shares on issue.

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

At all times during which eligible employees may subscribe for or purchase Shares upon exercise of an Option issued pursuant to the ESOP, the Company shall provide, within a reasonable period of a request by eligible employees, the current market price of the Shares.

The ESOP shall be administered by the Directors who shall have power to determine appropriate procedures for administration of the ESOP, resolve all questions of fact or interpretation or dispute in connection with the ESOP and delegate to any or more persons for such period and on such conditions as it may determine the exercise of any of the Directors' powers or discretions arising under the ESOP.

(b) *The number of Options issued under the ESOP*

There have been 11,617,946 Options granted under the ESOP and 1,300,000 of those Options have been exercised as at the date of this Notice of Meeting. The ESOP is administered by the Board in accordance with the rules of the ESOP and the rules are subject to the Listing Rules.

Resolution 4 is an ordinary resolution and is subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of this Resolution

**3.4 Resolution 5 - Approval of Increase in the Maximum Aggregate Remuneration for Non-Executive Directors**

As described above, it is intended to increase the size of the Board from five to seven, subject to the passing of Resolutions 1, 2 and 7 and the election of Dr Ramesh.

Shareholder approval is being sought to increase the maximum aggregate annual amount available for payment as remuneration to the non-executive Directors of the Company by \$500,000, from \$500,000 to \$1,000,000 per annum.

In accordance with Clause 4.6(b) of the Company's constitution and for the purposes of Listing Rule 10.17, the maximum aggregate amount payable as remuneration to all non-executive Directors of the Company in any year may not exceed an amount (**NED Fee Pool**) determined by shareholders from time to time at a general meeting.

The Company's non-executive Directors are remunerated for their services from the NED Fee Pool, which is currently \$500,000 per annum. Unlike the executive Directors, the non-executive Directors are not eligible to receive bonus payments. Upon Completion of the Proposed Transactions, the

Company will have significantly expanded international operations, which will result in increasing demands on non-executive Directors in terms of their responsibilities and time commitments.

The Company will also have a greater number of non-executive Directors, as it is proposed that Dr Ramesh will be appointed as a non-executive Director at the completion of the Proposed Transactions. Dr Ramesh brings diverse skills and deep commercial and board experience to the Company, drawing from areas such as engineering and water technology.

In this context, the Board is seeking shareholder approval to increase the NED Fee Pool for the following reasons:

- (a) to remunerate the non-executive Directors reasonably and fairly for their services;
- (b) to ensure the NED Fee Pool can accommodate an additional non-executive Director being appointed to the Board; and
- (c) to enable the Company to maintain remuneration arrangements that are market-competitive, so it can attract and retain high calibre individuals as non-executive Directors.

In deciding to seek shareholder approval for the increase to the NED Fee Pool, a review was undertaken of the prevailing levels of non-executive Director remuneration. The amount of the increase and the percentage of the increase to the NED Fee Pool for the non-executive Directors are not excessive and are consistent with the market practice.

Although an increase in the NED Fee Pool is being sought, it does not mean that the full amount will be used. Also, it is emphasised that the NED Fee Pool is a maximum annual limit and does not indicate that fees will necessarily be increased accordingly to that limit. Full details of the remuneration arrangements applicable to non-executive Directors will be set out in the Company's annual remuneration report, which must be submitted for adoption by resolution of shareholders at every annual general meeting.

The Directors, who have a personal interest in the subject of Resolution 5, have abstained from making a recommendation to shareholders in relation to this resolution.

Resolution 5 is an ordinary resolution and is subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of this Resolution.

### **3.5 Resolution 6 – Approval of Issue of Options to Directors**

The Board has approved, subject to Shareholder approval, the issue of a total of 7.5 million Options to the Directors of the Company in connection with the Proposed Transactions.

Listing Rule 10.11 requires a company to obtain shareholder approval prior to the issue of Equity Securities to a related party of the company. For the purposes of Listing Rule 10.11, a "related party" includes a Director of the Company.

Furthermore, Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. There are a number of exceptions to Listing Rule 7.1 under Listing Rule 7.2, including Exception 14, which provides that approval under Listing Rule 7.1 is not required if the issue is made with the approval of shareholders under Listing Rule 10.11. Accordingly, as Shareholder approval of the issue of Options to the Directors is being sought under Listing Rule 10.11, approval is not also required under Listing Rule 7.1.

The issue of the Options to the Directors would also be related party transactions under Chapter 2E of the Corporations Act. Giving a financial benefit to a related party requires shareholder approval under section 208 of the Corporations Act unless an exception to that requirement is available. Under section 211 of the Corporations Act, shareholder approval is not required if the financial benefit is remuneration to the related party and to give the remuneration would be reasonable given the circumstances of the company and the related party (including their responsibilities).

Having considered the circumstances, the Board is of the view that the proposed issue of the Options under Resolution 6 forms part of the Directors' reasonable remuneration. The Company will experience a significant expansion in its operations and the size of its business if the Proposed Transactions are completed. The issue of the Options in Resolution 6 will compensate the Directors for their work in the past and will provide them with an incentive to continue to improve management performance by participating in the future growth and prosperity of the Company through equity ownership.

For the purposes of and in accordance with Listing Rule 10.13, the following information is provided in relation to the proposed issue of Options to the Directors.

Director	Number of Options	Exercise Price	Vesting Period	Expiry Date
Richard Irving	2,000,000	1,000,000 Options with an exercise price of \$1.20 1,000,000 Options with an exercise price of \$1.50	2 years from the date of grant	4 years from the date of grant
Ross Haghghat	1,500,000	750,000 Options with an exercise price of \$1.20 750,000 Options with an exercise price of \$1.50	2 years from the date of grant	4 years from the date of grant
Peter Marks	1,500,000	750,000 Options with an exercise price of \$1.20 750,000 Options with an exercise price of \$1.50	2 years from the date of grant	4 years from the date of grant
Robert Wale	1,500,000	750,000 Options with an exercise price of \$1.20 750,000 Options with an exercise price of \$1.50	2 years from the date of grant	4 years from the date of grant
Eytan Levy	1,000,000	500,000 Options with an exercise price of \$1.20 500,000 Options with an exercise price of \$1.50	2 years from the date of grant	4 years from the date of grant

- (a) The maximum number of securities to be issued is set out above. Each Option will be exercisable for one Share.
- (b) The Options will be issued as soon as possible, but in any event not more than 1 month after the date of the Meeting.

- (c) Messrs Richard Irving, Ross Haghghat, Peter Marks, Robert Wale and Eytan Levy are the Directors of the Company.
- (d) The Options will be issued for nil cash consideration.
- (e) A voting exclusion statement applies to this Resolution and it is included in the proposed Resolutions in the Notice of Annual General Meeting.
- (f) No funds will be raised through the issue of the Options.

All of the Resolutions in Resolution 6 are separate ordinary resolutions.

The Board unanimously recommends that Shareholders vote in favour of all of the Resolutions in Resolution 6.

### **3.6 Resolution 8 –Approval of Potential Termination Benefits to Mr Henry J. Charrabé and Astaris SAS**

(a) *Background and legal requirements under the Corporations Act and ASX Listing Rules*

Under section 200B of the Corporations Act, the Company must not give a person a benefit in connection with the person's retirement from an office, or position of employment, in the Company if:

- the office or position is a managerial or executive office; or
- the person has, at any time during the last three years before their retirement, held a managerial or executive office in the Company,

unless shareholder approval is obtained under section 200E of the Corporations Act for the giving of the benefit (or if a specified exception applies).

A "benefit" is defined broadly in the Corporations Act to include a payment or other valuable consideration. It also includes the accelerated or automatic vesting of share-based payments on or as a result of retirement from an office or position, a payment made in lieu of giving of notice of termination and a payment that is made as part of a restrictive covenant, restraint-of-trade clause or non-compete clause.

Also, the "benefit" does not have to be directly given to the relevant person who has held a managerial or executive office. If the benefits are given through an entity controlled by the person or a third party, the benefits are deemed to be given "in connection with the retirement of the person from an office or position" under section 200A(2) and therefore require shareholder approval under 200B.

There are exceptions for the provision of certain kinds of benefits, such as statutory entitlements to accrued annual and long service leave and certain benefits within a monetary cap. This monetary cap is, in broad terms, equivalent to one year's annual average base salary of the relevant person over the period during which that person held a managerial or executive office (up to a period of three years).

In addition, ASX Listing Rule 10.19 provides that a listed company must ensure that no officer of the company or its child entities<sup>8</sup> will be, or may be, entitled to termination benefits

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<sup>8</sup> ASX Listing Rule 19.12 defines a "child entity" as any entity which is controlled by the company within the meaning of section 50AA of the Corporations Act, or a subsidiary of the company.

without shareholder approval first being obtained prior to payment if the value of those termination benefits that are or may become payable to all officers together exceeds 5% of the equity interests of the company as set out in the latest annual accounts given to ASX.

If a termination benefit is given in excess of what is permitted under the Corporations Act or ASX Listing Rules, a breach of the Corporations Act or Listing Rules can occur even if the person receiving the benefit is entitled to the benefit under their contractual arrangements with the Company.

Having regard to the potentially wide application of the restriction under section 200B of the Corporations Act and Listing Rule 10.19, the Board considers it to be appropriate and prudent to seek shareholder approval under sections 200B and 200E of the Corporations Act and Listing Rule 10.19, so that termination benefits may be paid or provided to officers who have held a managerial or executive office without breach of the Corporations Act or ASX Listing Rules.

(b) *What is the value of the potential termination benefits?*

Resolution 8(a) seeks shareholder approval for termination benefits that may be provided to Mr Charrabé under the CEO Employment Agreement. Similarly, Resolution 8(b) seeks shareholder approval for termination benefits that may be provided to Astaris SAS, which will be providing the services of Mr Philippe Laval under the Astaris Consulting Agreements.

Under section 200E of the Corporations Act, when seeking shareholder approval of a termination benefit, shareholders must be given details of the amount or value of the proposed payment or benefit, or if that amount or value cannot be ascertained at the time of disclosure, the manner in which that amount or value is to be calculated and any matter, event or circumstance that will, or is likely to, affect the calculation of that amount or value.

The amount and value of the termination benefits that may be provided to Mr Charrabé or Mr Laval (through Astaris SAS) cannot be ascertained in advance. This is because various matters, events and circumstances (including the manner in which the individual retires from their role, the length of time they have been in their role, fluctuations in the Company's share price and the exercise of discretions by the Board or committee of the Board), some of which have not yet occurred (or may never occur) or are not within the Company's control, will or are likely to affect the calculation of the amount or value.

Annexure C and Annexure D set out a description of the amount or value of the potential benefits that may be payable to Mr Charrabé and Mr Laval (through Astaris SAS), respectively, and the matters, events and circumstances that will affect whether any particular amount or other benefit will be paid.

Shareholder approval is being sought to allow the provision of all benefits under the Company's remuneration framework which may be defined as termination benefits for the purposes of the Corporations Act and ASX Listing Rules and which are set out in this Explanatory Memorandum. Therefore, the amount and value of the benefits for which shareholder approval is being sought under Resolutions 8(a) and 8(b) is the maximum amount or value of the benefits that could be provided to Mr Charrabé and Mr Laval (through Astaris SAS) in connection with any of them ceasing to hold an office, or position of employment, in the Company.

(c) *Effect of the Approval*

If shareholder approval is given to Resolutions 8(a) and 8(b), then the Company will be able to provide termination benefits to Mr Charrabé and Mr Laval (through Astaris SAS) up to the

maximum type, amount and value described in this Explanatory Memorandum (including in Annexure C and Annexure D).

Resolutions 8(a) and 8(b) are separate ordinary resolutions and each is subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of Resolutions 8(a) and 8(b).

### **3.7 Resolution 9 - Refreshment of Placement Capacity through Ratification and Approval of Previous Issue of Options in reliance on Listing Rule 7.1**

On 31 May 2017, the Company issued a total of 11,191,336 Options (**CEO Options**) to Mr Henry J Charrabé (proposed Managing Director and Chief Executive Officer of the Merged Group) with vesting conditions including Completion of the merger by the acquisition of RWL. In order to refresh the Company's ability under Listing Rule 7.1 to issue Equity Securities without obtaining Shareholder approval, Shareholders are asked to ratify and approve the issue of these Options for the purposes of Listing Rule 7.4.

As described above in relation to Resolution 4, Listing Rule 7.1 imposes a restriction on the number of Equity Securities issued without shareholder approval.

The passing of Resolution 9 will result in the 11,191,336 CEO Options being included in **A** in the 7.1 Formula and will also refresh the Company's 15% Placement Capacity under Listing Rule 7.1 in respect of that number of Equity Securities, by enabling the Company going forward, in reliance on Listing Rule 7.1, to issue 11,191,336 additional Equity Securities without Shareholder approval.

Ratification will provide the Company with flexibility in capital management and allows the Company to make further issues of Shares for working capital or other purposes as required, including to fund the purchase price for an acquisition, or the working capital requirements of the acquired company or business, wholly or partly through the issue of Equity Securities.

In accordance with Listing Rule 7.5, the following information is provided in relation to the Options that were issued under the 15% Placement Capacity:

- (a) the number of securities issued: 11,191,336 Options.
- (b) the price at which the Options were issued: Nil.
- (c) the terms of the Options to be issued:

The CEO Options will become exercisable only if Completion occurs, and the exercise price is the closing market price of the Shares as of the day the CEO Options were issued. The vesting of these Options will be subject to the following conditions.

- (i) 50% of the Options will vest and become exercisable in equal instalments at the end of each consecutive three month period over a four-year period commencing on 26 May 2017, provided that Mr Charrabé continues to be employed by the Company at the end of the relevant three month period.
- (ii) The other 50% of the Options will vest and become exercisable in equal annual instalments at the end of each consecutive 12 month period over a four-year period commencing on 26 May 2017, provided such vesting will be subject to performance criteria established by the Board, in good faith consultation with Mr Charrabé.

- (iii) In the event of termination of Mr Charrabé's employment by reason of death or disability, any unvested Options will be immediately accelerated and become exercisable upon the termination.
  - (iv) In the event of termination of Mr Charrabé's employment by the Company without cause or by Mr Charrabé for good reason, if the termination occurs during his first 2 year term, any Options that would have vested over the remainder of the term plus the next 12 months following the termination will automatically vest and become exercisable. If the termination occurs after that first 2 year term, any Options that would have vested over the 12 months following termination will automatically vest and become exercisable.
  - (v) If a change of control occurs during the course of Mr Charrabé's employment, any unvested Options will be immediately accelerated and become exercisable upon the change in control.
  - (vi) The Options expire eight years from the issue date, although if Mr Charrabé's employment is terminated, all of the Options (whether vested or unvested) will lapse 60 days after that termination.
- (d) the names of the allottees or the basis on which allottees of the Shares are determined: Mr Henry J Charrabé.
  - (e) the use (or intended use) of the funds raised): No funds will be raised through the issue of the Options.

Resolution 9 is an ordinary resolution and is subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of this Resolution.

### **3.8 Resolution 10 - Change of company name**

Given the Company's expanding operations, it is proposed that the Company change its name from Emefcy Group Limited to 'Fluence Corporation Limited'. The Board has approved this change of name subject to the approval by Shareholders.

This resolution is a special resolution and requires approval of 75% or more of all votes cast by shareholders present and eligible to vote (whether in person, by proxy, by attorney or by corporate representative).

If Resolution 10 is passed, the change of name will take effect when ASIC alters the details of the Company's registration in accordance with section 157(3) of the Corporations Act. The Board will also request that ASX change the Company's ASX listing code from "EMC" to "FLC" after the change of name takes effect. The ASX listing code "FLC" has been reserved by the Company.

In addition, all references to Emefcy Group Limited in the Company's constitution will be replaced with references to 'Fluence Corporation Limited' in accordance with section 136(2) of the Corporations Act.

Resolution 10 is a special resolution and is subject to each of Resolutions 1, 2 and 7 being passed.

The Board unanimously recommends that Shareholders vote in favour of this Resolution.

## 4 REASONS FOR AND AGAINST THE PROPOSED TRANSACTIONS

### 4.1 Why you should vote in favour of the Proposed Transactions

The Company believes that the Proposed Transactions will provide a number of important advantages for the Company. These advantages include the following.

(a) *Strategic alliance showing progress*

On 30 March 2017, the Company announced a strategic alliance with RWL Water Group enlisting RWL Water Group's engineering expertise in designing and producing a range of packaged solutions, in order to enable the Company to offer its Chinese strategic distribution partners a spectrum of solutions including easy-to-ship and install modular solutions, packaged or kitted plants and fully containerised plug-and-play plants. The strategic alliance has already shown encouraging progress to date with the shipment of packaged demonstration plants produced at RWL Water Group's manufacturing facility in Israel to two of the Company's Chinese strategic partners.

(b) *Strategic expansion and growth*

The Directors believe that RWL Water Group is a natural and synergistic fit for the Company and the Proposed Transactions presents significant advantages by strategically expanding the Company's existing wastewater treatment business. The Merged Group will present Shareholders with an opportunity to invest in a business with a greater diversity of products, services and end-market, and also experience growth in the value of Shares and market capitalisation.

RWL Water Group also brings a recognised and respected brand which the Merged Group can leverage, with more than 7,000 reference sites and strong customer references in more than 70 countries.

(c) *Immediate cash injection to fund expansion and growth*

Completion of the Proposed Transactions will provide the Company with a significant cash injection to fund the expansion and growth of the Merged Group at a more rapid rate than otherwise would likely be the case. The Board believes that, with the strengthened balance sheet, the Merged Group will be able to meet operating expenses without compromising its strategic expansion and growth.

(d) *Introduction of a strategic and financially robust cornerstone investor*

As a result of the Proposed Transactions, Mr Lauder (through his controlled entity, the Seller) will control approximately 34% of the share capital of the Merged Group upon Completion. Non-associated Shareholders may be able to participate in any benefits that may be realised from these successes.

(e) *Access to engineering expertise in designing and producing a range of plant solutions*

RWL Water Group has developed its engineering expertise over the years of designing, producing and deploying scalable water treatment solutions which, in particular, incorporate adapted shipping containers. This capability will enable the Merged Group to offer its strategic distribution partners a diverse range of solutions, including easy-to-ship-and-install modular solutions, packaged or kitted plants, or fully containerised plug-and-play plants. These scalable solutions will provide the flexibility to meet varying requirements for waste

water treatment in remote places, thereby increasing the Merged Group's ability to capture additional market share (for example, in China) in jurisdictions with significant market opportunity. RWL Water Group's expertise may also accelerate the Company's development of a complete, standardised packaged treatment solutions for China.

(f) *Enhanced services and sales offerings*

RWL Water Group brings a strong global platform to the Merged Group in order to offer its services and products around the world. RWL Water Group also brings highly complementary products to the Company's, allowing the Merged Group to service clients across the full water cycle value chain. The Merged Group will also allow for cross-sell and up-sell through the existing clients and RWL Water Group's customer bases. In addition, the Merged Group will be able to combine engineering resources and project management skills which RWL Water Group has developed with the Company's technical capabilities. Accordingly, the Merged Group may be able to create high volume modular wastewater solutions and products and to achieve lower costs, higher margin projects, high volume product sales and positive earnings.

(g) *Geographical diversity and scale of the Merged Group*

The Proposed Transactions present an opportunity for the Company to diversify its business to include different geographical areas and participate in a BOT project such as the Mexico BOT Project. The Company expects the Merged Group expects to develop its business in the growing Latin American markets, as well as Israel, Italy and Middle East. These areas will supplement the Company's emerging distribution channels in China. With a broader customer base in diverse geographical areas, the Merged Group is better placed to deal with variation in demand and respond to industry trends.

In addition, the Merged Group will have the scale and financial strength to accelerate its growth. The Merged Group will benefit from economies of scale and create complementary growth opportunities across its business. In the current market environment, there appears a greater likelihood of creating shareholder value by expanding the Company's business scale and diversifying its assets and services.

(h) *Highly experienced board and management teams*

RWL Water Group is run by a highly-experienced management team and board. Executive officers in RWL Water Group are capable executive officers with expertise in water solutions markets in their geographies and a clear strategic vision and an understanding of how to build systems and processes. The addition of these officers to the management team and the Merged Group Board will provide additional experience and skills to guide the development of the Merged Group.

In addition, the Merged Group will be able to leverage group benefits through cross-promoting skills and products based on highly experienced management teams.

#### **4.2 Why you might vote against the Resolutions to approve the Proposed Transactions**

(a) *Dilution of current shareholdings*

The issue of the Consideration Shares and the Placement Shares will dilute current Shareholders. The effect of the Proposed Transactions on the equity position of the Company is set out in Section 6.2 of this Explanatory Memorandum. The Directors believe that dilution of shareholdings will be offset at least in part by the increased size of the

Company with the additional opportunities likely to be available to the Company as a result of the Proposed Transactions.

(b) *Significant change in scale and risk profile*

The Proposed Transactions will make significant changes to the Company's business and risk profiles. This change may not be consistent with the investment objectives and risk appetites of all Shareholders.

(c) *Potential for the Seller to exercise significant influence on the operations of the Company*

If Shareholders approve the Resolutions in relation to the Proposed Transactions and the Company issues the Consideration Shares and the Placement Shares to the Seller (or its Related Bodies Corporate), the Voting Power of the Seller (and its Related Bodies Corporate) will increase from nil to approximately 34%. As a result, the Seller (and its Related Bodies Corporate) will be able to vote the stake it holds (subject to all applicable laws) in relation to matters requiring shareholder approval, including the election of directors, significant corporate transactions and certain issues of equity securities.

In this regard, the Seller's interests may not always be aligned with those of other Shareholders. For discussions regarding the potential increase in the Voting Power of the Seller (and its Related Bodies Corporate) and the control impact on the Company, see sections 3.1 and 6.5 of this Explanatory Memorandum.

(d) *The Company may become a less attractive takeover target*

If the Proposed Transactions proceed, the level of the Seller's interest in the Company is likely to mean that its support for any proposal to acquire the Merged Group will be important for that proposal to be successful. It is, therefore, possible that the presence of Mr Lauder (through the Seller) as a substantial shareholder in the Merged Group may be perceived by the market as reducing the likelihood of a takeover of the Merged Group. This may potentially cause the Shares to trade at a discount to the value at which they would trade if the Seller did not hold its stake in the Merged Group.

(e) *Liquidity of the Shares*

At Completion, the Completion Shares will be issued to the Seller, and will comprise 23.69 % of the issued share capital of the Company. Those Shares (as well as any Holdback Shares that are issued after the Holdback Period), however, will be subject to the Lock-Up Agreement for the 2 year period following Completion. As a result, the Seller's shareholding in the Company will reduce the free float of the Shares (on a percentage basis) and may reduce the liquidity from current levels. It is possible the relatively low free float could negatively impact future liquidity of the Shares in the Merged Group. The effect of the Lock-Up Agreement, however, will be alleviated when the Consideration Shares that will be subject to voluntary escrow are released from escrow. In addition, sales of the Consideration Shares in the future by the Seller may result in movements in the share price of the Shares.

Nevertheless, it is also possible that the strengthening in the Merged Group's financial position as a result of the issue of the Placement Shares and the increased market capitalisation may in fact result in an increased level of liquidity in the Shares after Completion.

(f) *Assumption of RWL liabilities*

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

The Sale and Purchase Agreement contains a number of representations, warranties and indemnities in favour of the Company, subject to certain limitations. While the Company can bring a claim against the Seller based on the indemnities given in favour of the Company, the maximum recourse the Company can have is limited to the Consideration Shares (or, under certain circumstances, the net proceeds of sales of Consideration Shares) and the Company's remedy under the indemnities for any breach of general business warranties in respect of RWL Water Group will be limited to a reduction in the number of Holdback Shares it will be required to issue. Except in very limited circumstances, the Company is unlikely to receive any cash amounts from the Seller to cover any liabilities incurred by the Company as a result of the Proposed Transactions.

Any material unsatisfied warranty or indemnity claims could adversely affect the Merged Group.

(g) *Risk factors associated with the Proposed Transactions*

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

(h) *No payment of control premium*

Upon successful Completion of the Proposed Transactions, the Seller will control approximately 34% of the share capital of the Merged Group without paying a control premium.

#### **4.3 Risks Factors**

There are general risks which may have an adverse impact on the Company's operations irrespective of whether the Company implements the Proposed Transactions or not. These risks include general economic risks, regulatory risks, exchange rate risks and share price volatility risks. There are other general investment risks many of which are largely beyond the control of the Company and difficult to predict or anticipate.

In addition to these general risks, the Company may be faced with specific risks if the Proposed Transactions are completed. The Board aims to manage these risks by carefully planning the Company's activities and implementing risk control measures. However, as noted above, some of the risks identified are highly unpredictable and the extent to which the Company is able to effectively manage them may be limited.

The following risk factors are not intended to be an exhaustive list of the risk factors to which the Company is exposed or will, following completion of the Proposed Transactions, be exposed. These risk factors should be taken into account in your voting decisions.

(a) *Reliance on RWL Information provided by the Seller*

The information regarding RWL Water Group in this Explanatory Memorandum and on which the Company has relied in relation to the Proposed Transactions has been derived from

information made available to the Company by or on behalf of the Seller and RWL Water Group during the due diligence process conducted by the Company.

While the Company has conducted due diligence on RWL Water Group, and prepared a detailed financial analysis of RWL Water Group in order to determine the attractiveness of the RWL Business, the Company is unable to verify the accuracy or completeness of the information provided to it by or on behalf of the Seller and there is no assurance that this due diligence was conclusive and that all material issues and risks in relation to the Proposed Transactions and RWL Water Group have been identified.

To the extent that this information is incomplete, incorrect, inaccurate or misleading, or the actual results achieved by RWL Water Group are weaker than those indicated by the Company's analysis, there is a risk that the profitability and future results of the operations of the Merged Group may differ (including in a materially adverse way) from the Company's expectations as reflected in this Explanatory Memorandum, or that additional liabilities may emerge.

(b) *Advantages may not be realised*

The advantages outlined in Section 4.1 above include forward looking statements. Such statements are only predictions and are subject to inherent risks and uncertainties. These risks and uncertainties include factors and risks specific to the wastewater treatment industry as well as other general economic conditions. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

(c) *PDVSA Agreement in Venezuela*

The current contract value of the PDVSA Agreement is US\$95,545,000, all of which was prepaid in advance. The PDVSA Agreement is the biggest project that RWL Water Group has entered into to date. RWL Argentina has taken operational and legal steps necessary to mitigate potential contractual exposures in light of the reduction of the original contract. RWL Argentina and the customer continue to have constructive negotiations with respect to establishing a project timeline and acceptance and processing of outstanding invoices and documents regarding certain additional costs. Given the political uncertainty in Venezuela, a favourable outcome with respect to outstanding invoices (which represent a relatively minor portion of entire contract value) and/or full completion of the project cannot be guaranteed.

(d) *San Quintin BOT Project in Mexico*

The San Quintin BOT project is subject to reaching financial closure. While RWL is taking all necessary steps to ensure, and expects, financial closure, there is no guarantee that financial closure will occur. If it does not occur the project will be cancelled. In this event, the financial exposure will be limited to expenses incurred to date.

(e) *Contract risk*

A large proportion of the Merged Group revenue will be derived from contracts which are generally awarded following a competitive tender process where price is one of the most important factors that a customer will consider in evaluating tenders. Even for those projects that are not put out to tender, there will still be a negotiation on the pricing of the contract with the customer. In determining the price or other terms on which the Merged Group going forward will submit a tender or otherwise propose to a potential customer, the Merged Group will undertake modelling of the contract pricing based on a series of assumptions about a range of factors such as the type and amount of equipment to be deployed, length of contract, site location, consumables expenditure, the amount of labour required to support

the project and labour productivity levels.] If any of the assumptions made during the modelling subsequently turns out to be materially incorrect, the Merged Group could be locked into a contract with unfavourable economics that could adversely affect margins and results of operations. The Merged Group may have no right to renegotiate the contract with the customer even if the economics of a contract become unfavourable.

A proportion of the Merged Group's revenue will also depend on winning new contracts where the tender process and timing for performing these contracts are not within our control. The Merged Group will also be subject to the risk of cancellations from its customer from time to time. The Merged Group's performance and cash flows may fluctuate from quarter to quarter depending on the timing and size of new contract awards and delays or cancellations.

(f) *Integration risk*

The Proposed Transactions involves bringing two water treatment businesses together, which may have different corporate cultures systems and procedures. Additionally, RWL Water Group adds complexity to the Merged Group given the number of subsidiaries in multiple jurisdictions. The integration process may take longer than anticipated, may result in fewer synergies than expected and may have significant one-time restructuring charges and unanticipated costs. It will require significant cultural transformation to combine the Company and RWL Water Group into one business. If successful transformation is not achieved, it will pose a high risk to the Merged Group.

(g) *Operating costs exceeding expected budgets*

The Merged Group will have expanded businesses in various geographical areas. The operating costs in streamlining the businesses of the Company and RWL Water Group, improving financial reporting and integrating operations into the Merged Group may exceed the expected budgets. This may strain the financial position of the Merged Group.

(h) *Ongoing funding of the Business*

The integration of two existing businesses and expansion into new geographical markets will consume cash and the cash burn rate may exceed the Merged Group's revenue for at least the short to medium term. In addition, the projects and plans of the Company may go over budget and create difficulties in funding the Merged Group. This may result in the need for significant funding. While the proposed issue of the Placement Shares would significantly alleviate these funding concerns, there is no assurance that future funding will not be required and when it is, required funding will be available on satisfactory terms. If the Merged Group is unable to obtain additional funding as needed, it may have to reduce the scope of its businesses and operations and scale back its development projects, which may adversely affect the business and financial condition of the Merged Group and its performance.

(i) *Retention of Employees*

Any business is reliant upon a number of key senior management staff including executive officers, regional managers and engineers. The loss of key staff could have an adverse impact on the performance of the Merged Group.

In addition, the Proposed Transactions will involve the transfer of a significant number of employees, and some consultants to the Merged Group. Any inability of the Merged Group to integrate and/or retain the new employees and consultants may also have an adverse impact on the Merged Group's performance.

The Merged Group has made offers of employment to key executives of RWL Water Group to take effect at Completion of the Proposed Transactions. However, there is a possibility that certain essential staff may not be successfully transferred to the Merged Group. In this case, the Merged Group may suffer detriment as a consequence of those staff being unavailable to support the integration of the businesses of the Company and RWL Water Group.

(j) *Country risks*

The businesses of RWL Water Group stretch across various jurisdictions including Venezuela, Mexico, Argentina, South Africa, Columbia and Peru. These countries are understood to be susceptible to geopolitical and regulatory risks. If these risks eventuate it will adversely affect the Merged Group.

Additionally, the Chinese market is a focus for the Merged Group and any changes on the Chinese government's stance towards environmental targets (especially the China 5 Year Plan) will have a significant adverse impact on the Merged Group's expected performance.

(k) *Business strategy risks*

The Merged Group's strategy to expand its businesses with recurring revenue streams and offer diversified products and services may be affected by a range of factors. The water solutions market is very competitive with many market participants world-wide. Winning a project with reasonable margins may be difficult. Also, there is significant effort and overhead in bidding for projects, including submitting tenders, negotiating contracts and arranging letters of credit and insurance. Even if a big project is obtained, contracts may be cancelled or suspended. Therefore there is a risk that the Merged Group's business strategy may not generate the expected revenue streams.

(l) *Downturn of economy in markets in which the Merged Group operates*

Any downturn in the economy in which the Merged Group, or its customers, operates could result in a reduction in demand for the Merged Group's products and services. This may materially adversely affect the Merged Group's businesses and financial performance.

(m) *Historical financial information and pro forma combined financial information*

The historical financial information included in this document may not be representative of future performance. The pro forma combined financial information included in this document may not reflect what the Merged Group's performance would have been, if it had been a combined entity during the periods presented. The pro forma combined financial information presented is based on various assumptions, and we cannot assure that these assumptions will prove to be accurate over time or continue to apply in the future.

#### **4.4 Consequences if the Proposed Transactions Do Not Proceed**

If the Proposed Transactions do not proceed:

(a) *No change to business, scale and management*

There will be no change to the Company's business, management team, or scale of the business.

(b) *No dilution of existing Shareholders*

The proposed issue of the Consideration Shares and the Placement Shares will not occur and as a result there will be no corresponding dilution of existing Shareholders.

(c) *Decline in share price*

If the Proposed Transactions do not proceed, the Share price may fall lower than the share price at the time of the announcement of the Proposed Transactions (this risk may also be impacted by equity market volatility).

(d) *Costs*

The Company will also have incurred various costs associated with the Proposed Transactions for conducting legal and financial due diligence on RWL Water Group as well as preparing this Explanatory Memorandum. However, the costs incurred might be lower than implementation costs to be incurred if the Proposed Transactions proceed.

(e) *Future growth*

It may be difficult to find the appropriate acquisition target which is in line with the Company's long term strategy and business. Further, similar opportunities that offer synergistic goodwill may be limited.

(f) *Limited new opportunities*

The Company may be restrained by limited funds in funding and securing new business opportunities.

## 5 SUMMARY OF TRANSACTION DOCUMENTS

### 5.1 Summary of Sale And Purchase Agreement

The following is a summary of the key terms of the Sale and Purchase Agreement.

#### (a) *Conditions Precedent*

There are a number of conditions that are required to be satisfied (or waived) in order for Completion of the Proposed Transactions to take place, including:

- (i) the Company's Shareholders approving the acquisition of the LLC Interests and the issue of the Consideration Shares to the Seller at the Meeting;
- (ii) the appointment by the Board of Mr Charrabé as Managing Director of the Company;
- (iii) Shareholders approving the appointment of Dr Ramesh as a non-executive director of the Company;
- (iv) the Company having obtained a waiver from ASIC relating to section 606 of the Corporations Act due to the escrow arrangements over the Shares subject to the Lock-Up Agreement; and
- (v) the execution and delivery to the Company of the Lock-Up Agreement (described in Section (c) below) by the Seller.

#### (b) *Consideration Shares*

In consideration for the acquisition of the LLC Interests, the Company will issue to the Seller the Consideration Shares and pay to the Seller the Completion Cash Consideration.

Upon Completion, the Company will issue 80% of the Consideration Shares. 20% of the Consideration Shares will be held back for the Holdback Period in order to satisfy claims, if any, that arise from the indemnities given to the Company under the Sale and Purchase Agreement. After the Holdback Period ends, the Company will issue to the Seller such number of Holdback Shares as the Seller is entitled to receive after any reduction or deferral as required under the Sale and Purchase Agreement.

#### (c) *Lock-Up Agreement*

The Seller has agreed to certain restrictions being applied to the Consideration Shares and will enter into the Lock-Up Agreement with the Company. The Lock-Up Agreement restricts the Seller from selling, transferring or otherwise disposing of any Consideration Shares for a two-year period commencing on Completion (except in the specific circumstances described in the Sale and Purchase Agreement or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18) in accordance with the terms and conditions set out in the Sale and Purchase Agreement.

(d) *Cash sufficiency requirements and target stock value*

The Seller has agreed to ensure that RWL Water Group will have US\$1,300,000 in cash or cash equivalents (i.e. any asset that is easily and readily convertible into a known amount of cash) at Completion to pay certain selling, general and administrative expenses (**SG&A**) after Completion.

The Seller has also agreed to cover any debt of RWL Water Group (excluding specified permitted debt) outstanding at Completion and any net payables shortfall with respect to the month following Completion and to ensure a target stock value.

A stocktake of RWL Water Group is to be completed to determine the amount of stock of RWL Water Group as at the Business Day immediately before Completion.

After the Completion, a reciprocal purchase price adjustment is to be made taking into account such debt of the Company at Completion, the amount of such net payables (which may be a positive or negative amount), the US\$1,300,000 SG&A amount and, subject to a US\$500,000 cushion up or down, the target stock value.

(e) *Conduct before Completion*

In the period between execution of the Sale and Purchase Agreement and Completion, the Seller is required to ensure that the RWL Business is conducted in all material respects in the ordinary and usual course, having regard to the nature of the RWL Business and past practice. The Seller must not, and must ensure each member of RWL Water Group does not, undertake certain actions prescribed in the Sale and Purchase Agreement prior to Completion without obtaining the Company's prior consent, including issuing any equity interest or rights in respect of any equity interest in each entity in RWL Water Group.

The Company is subject to similar obligations in the period between execution of the Sale and Purchase Agreement and Completion. The Company is required to ensure that the Company group is conducted in all material respects in the ordinary and usual course, having regard to the nature of the business of the Company and past practice. The Company must not, and must ensure each member of the Company group does not, undertake certain actions prescribed in the Sale and Purchase Agreement prior to Completion without obtaining the Seller's prior consent, including issuing any equity interest or rights in respect of any equity interest in each entity in the Company's group (with some specified exceptions).

(f) *Seller Warranties and Company Warranties*

The Sale and Purchase Agreement includes representations and warranties given by the Seller to the Company (**Seller Warranties**) and representations and warranties given by the Company to the Seller (**Company Warranties**).

The Seller Warranties and the Company Warranties each include warranties in relation to legal status, capacity and authority, capital structure, solvency, compliance with law, tax, debt and financing arrangements, books and records, accounts and other financial matters, related party transactions, insurance, no litigation, material contracts, key projects, conduct of the business, assets, stock, authorisations, leases and property, intellectual property, information technology, environmental matters, anti-bribery and corruption, anti-money laundering and counter-terrorism, employees and superannuation.

Certain Seller Warranties and Company Warranties are determined to be 'Fundamental Warranties'. The Fundamental Warranties include warranties in relation to formation, existence and power and equity interests.

The Seller's maximum aggregate liability for breaches of Seller Warranties which are *not* Fundamental Warranties and most Seller covenants is 20% of the Consideration Shares (in the absence of fraud by the Seller). The maximum aggregate liability for breaches of Seller Warranties (including Fundamental Warranties) and certain Seller covenants and under the indemnity in relation to certain tax matters is 100% of the Consideration Shares (in the absence of fraud by the Seller).

The Purchaser's maximum aggregate liability for breaches of Purchaser Warranties which are *not* Fundamental Warranties and certain Purchaser covenants is 20% of the value of the Consideration Shares at the date the Sale and Purchase Agreement is entered into (in the absence of fraud by the Purchaser). The maximum aggregate liability for breaches of Purchaser Warranties (including Fundamental Warranties) is 100% of the value of the Consideration Shares at the date the Sale and Purchase Agreement is entered into (in the absence of fraud by the Purchaser).

Any liability the Purchaser may have to the Seller for breaches of Purchaser Warranties will be able to be satisfied only through the issuance to the Seller of additional Shares. The issuance of any such additional Shares to the Purchaser will be subject to the Seller's ability to acquire additional Shares without being in breach of section 606 of the Corporations Act (relating to the acquisition of a relevant interest in issued voting shares in a company in a transaction where the person's Voting Power in the company increases from a starting point that is above 20% and below 90%).

In particular, the Purchaser will only be required to issue Shares to the Seller in satisfaction of claims by the Seller for breaches of Purchaser Warranties if the issue can be done under item 9 of section 611 of the Corporations Act (relating to the acquisition of no more than 3% of a company's voting shares in any 6 month period) or item 7 of section 611 of the Corporations Act (relating to obtaining shareholder approval). In addition, any such additional Shares would be issued only if the Company had sufficient availability under its 15% Placement Capacity or if Shareholder approval were obtained under Listing Rule 7.1.

(g) *Indemnities*

Each of the Seller and the Company, respectively, have given each other reciprocal indemnities in relation to a breach of the Seller Warranties or breach of the Company Warranties.

Each of the Seller and the Company, respectively, have given each other indemnities in relation to a breach of Seller covenants or breach of Company covenants.

The Seller has also provided additional indemnities to the Company in relation to certain tax matters.

(h) *Restraint of Trade after Completion*

The Seller has agreed to a restraint under which neither it nor any of its affiliates will, subject to certain exceptions set out in the Sale and Purchase Agreement (including the exception described below):

- (i) engage in a business that competes with or is similar to the RWL Business;

- (ii) solicit or persuade or attempt to solicit or persuade any person who the Seller is at the time aware is a customer of RWL Water Group to stop or reduce its business with RWL Water Group; or
- (iii) induce or persuade or attempt to induce or persuade a senior management employee of Company or its controlled affiliates who is involved in the RWL Business to cease his or her employment.

The restraint period for each of the above restraints is to be two, three, four or five years, depending on whether any of those periods are held by a court to be unreasonable or invalid for any reason, in which case that period will be deleted to the extent necessary for the relevant restraint to be enforceable.

Subject to certain exceptions set out in the Sale and Purchase Agreement, if during the restraint period, the Seller, either directly or through any of its affiliates, wishes to engage in certain projects or business opportunities (excluding certain ongoing operating business enterprises) that compete with or are similar to the business of RWL Water Group in a restraint area, the Seller must first offer to the Company the right to engage in that business or project. If the Company does not notify the Seller that it wishes to engage in that project or business opportunity (or it does provide such notice, but does not reasonably and in good faith promptly and diligently pursue such project or business opportunity), the Seller can thereafter engage in that project or business opportunity without committing a breach of the restraint set out above.

(i) *Termination Rights*

Provided that they are not themselves in default under the Sale and Purchase Agreement, both the Seller and the Company may terminate the Sale and Purchase Agreement before Completion by notice in writing if:

- (i) **Breach:** The other party commits a breach of any representation, warranty, covenant or agreement contained in the Sale and Purchase Agreement, in each case in a manner that would result in the failure of certain specified conditions precedent, and the breach is incapable of remedy or, where the breach is capable of remedy, fails to remedy that breach within the earlier of 30 days of notice (from the party not in breach) requesting it does so and the Business Day prior to the day that is 120 days after the date of the Sale and Purchase Agreement;
- (ii) **Condition not satisfied:** Any condition precedent to Completion is not satisfied or waived on or before the date that is 120 days after the date of the Sale and Purchase Agreement, provided that if the relevant condition precedent is either of the ones set forth in sections 5.1(a) or (d) of this Explanatory Memorandum, the Company may not terminate the Sale and Purchase Agreement unless Completion has not occurred on or prior to the date that is 150 days after the date of the Sale and Purchase Agreement; or
- (iii) **Insolvency Event:** The other party is subject to an Insolvency Event (as defined in the Sale and Purchase Agreement).

In addition to the termination rights described above, (i) the Company may terminate the Sale and Purchase Agreement before completion if the Seller gives the Company notice of a Material Adverse Change in respect of the RWL Water Group or the RWL Business (taken as a whole) and (ii) the Seller may terminate the Sale and Purchase Agreement before Completion if the Company gives the Seller notice of a Material Adverse Change in respect of the Company or the business of the Company and its Subsidiaries (taken as a whole).

## **5.2 Private Placement Letter Agreement**

The Company and the Seller have also entered into the Private Placement Letter Agreement, to confirm the Seller's commitment to subscribe (or procure that its Related Bodies Corporate subscribe) for the Placement Shares and the Company's commitment to issue the Placement Shares for an aggregate subscription price of US\$20,000,000 and at an issue price of A\$0.85 per share. The issuance of the Placement Shares is subject to, and conditional upon, among other conditions, the Shareholders approving the issuance and Completion occurring under the Sale and Purchase Agreement.

## **5.3 Summary of the employment terms of Managing Director and Chief Executive Officer**

Upon successful Completion of the Proposed Transactions, Mr Henry Charrabé is to be appointed as Managing Director and Chief Executive Officer of the Company. The material terms of the CEO Employment Agreement are summarized below.

Under the CEO Employment Agreement, Mr Charrabé is to be employed in the roles of Managing Director and Chief Executive Officer for an initial two year term followed by automatic one year renewals (together, the Term). Mr Charrabé is to receive a base annual salary of US\$600,000, a one-off sign-on bonus of US\$150,000 and a one-off guaranteed minimum bonus for 2017 of US\$150,000, each of which will be payable on 31 December 2017.

Going forward, he will be entitled to receive a bonus of US\$300,000 at the end of each calendar year beginning in 2018 (assuming continued employment), and will be eligible for a further discretionary bonus each calendar year. His discretionary bonus will have a target amount of US\$75,000, and will be paid annually based on the achievement of performance metrics set by the Board. Mr Charrabé will continue to receive, until such time as he is ineligible to do so, health insurance benefits that he and his family are currently receiving in connection with his position as CEO of RWL or equivalent benefits, with a cost to the Company of up to 30% of his salary annually, and a housing allowance of US\$170,000 annually.

Mr Charrabé has also been granted the CEO Options, with each option to be exercisable for one ordinary share in the Company upon payment of the exercise price of A\$0.93. The exercisability of all of the CEO Options will be subject to the condition that Completion of the Proposed Transactions occurs, and if Completion does not occur within 120 days after 26 May 2017, which was the date the Sale and Purchase Agreement was entered into (SPA Signing Date), all of the CEO Options will lapse on that 120th day.

Assuming that Completion occurs, half of the CEO Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) month period over a four-year period commencing on the SPA Signing Date, so long as Mr Charrabé continues to be employed by RWL at the end of the relevant three (3) month period.

The other half of the CEO Options will vest and become exercisable in equal annual instalments at the end of each consecutive twelve (12)-month period over a four (4)-year period commencing on the SPA Signing Date. Vesting of these CEO Options will be subject to meeting performance criteria established by the Board, in good faith consultation with Mr Charrabé.

If there is a change in control of the Company, however, all of the then unvested CEO Options will immediately vest and become exercisable. In addition, all of the CEO Options will expire on the earlier of 60 days after termination of Mr Charrabé's employment and the 8th anniversary of the SPA Signing Date.

There are a number of termination benefits that Mr Charrabé may receive depending on the circumstances of his termination of employment. The details of these benefits are further detailed in Annexure C.

## 6 INFORMATION ABOUT THE MERGED GROUP

### 6.1 Profile of the Merged Group

#### (a) *Key Attributes*

If the Proposed Transactions proceed, the Board believes that the Merged Group is well positioned to become a global provider in the fast-growing market for decentralised water and wastewater treatment solutions. The Merged Group should be able to take advantage of Emefcy's existing traction in China where it is close to rolling out its proprietary technology through six signed strategic partnerships and also RWL Water Group's experiences in offering an integrated range of services, from early stage evaluation, through design and delivery to ongoing support and optimisation of water related assets.

The Board expects the Merged Group to experience enhanced growth rates. In addition, the Merged Group's enhanced scale, platform, sales network, broad market reach and differentiated product offering is likely to offer increased opportunities to drive growth initiatives.

The Merged Group aims to:

- become a one-stop shop for water solutions, enabling potential sales of multiple solutions to the same customers;
- accelerate development of standardised packaged solutions for key markets in the developed and developing worlds; and
- offer a differentiated value proposition that generates long-term customer relationship, predictable cash flow and attractive rates of return.

#### (b) *Board of the Merged Group*

Upon successful Completion of the Proposed Transactions, Mr Charrabé and Dr Ramesh are each proposed to become a Director of the Company. The Merged Group Board will then be comprised of 7 Directors with the five existing Directors of Emefcy and Mr Charrabé and Dr Ramesh. Apart from adding two more Directors, the Board will remain unchanged, with Mr Irving being the Executive Chairman.

The proposed two new Directors have considerable experience and networks in the global water solutions market.

Subject to shareholders approving the Proposed Transactions, it is proposed that Mr Charrabé, who currently serves as President & CEO, Global Operations for RWL, will be appointed Managing Director and Chief Executive Officer of Fluence. Mr Charrabé brings more than a decade of experience in developing water management and investment solutions to his role at RWL. Mr Charrabé has been instrumental to the establishment of RWL as a global player through strategic acquisitions and by significantly growing the company organically. He is also responsible for creating the integrated sales structure in North, Central and South America, as well as in the Middle East and Europe. Prior to his leadership role at RWL, Mr Charrabé was a senior executive at the Seller in the United States and Europe. From 2003 to 2005, Mr Charrabé served as Chief Operating Officer of W2W, an electrocoagulation wastewater technology company. Mr Charrabé received a B.A. from the Freie Universität in

Berlin and Tel Aviv University. He earned an M.A. in Political Science and an M.A. in International Economics and Finance, both from Brandeis University, as well as an M.A. in Public Administration from the John F. Kennedy School of Government at Harvard University.

Also subject to shareholders approving the Proposed Transactions, it is proposed that Dr Ramesh, currently Director and Technical Advisor for RWL, will also join the Board. Dr Ramesh has over 30 years of global operating, acquisition and technology experience. In his advisory role, Dr Ramesh supports RWL's efforts to evaluate the best water treatment technologies and companies around the world.

Dr Ramesh previously held senior management positions at GE Water & Process Technologies, including as Chief Technology Officer for more than four years. As Chief Technology Officer, Dr Ramesh played a key role in the development and implementation of the strategy that led to the creation of GE's US\$2.5 billion global water platform. Prior to joining GE, Dr Ramesh served in numerous senior management roles over a two-decade career with A. Schulman, Inc., a global multi-billion dollar specialty chemicals manufacturer. Dr Ramesh was a member of the International Advisory Board to the Ministry of Environment and Water for the Government of Singapore from 2006 to 2009. He also served on the Executive Board of the National Center for Food Protection and Defense, the Department of Homeland Security-supported university-based research center. He currently serves on the Board of Imagine H2O, a non-profit organization based in Silicon Valley that supports entrepreneurs. Dr Ramesh earned an M.S. and Ph.D. in Chemical Engineering from the University of Akron.]

(c) *Management of the Merged Group*

Mr Irving will continue to serve as the Executive Chairman and Mr Charrabé is to be appointed as Managing Director and Chief Executive Officer who will manage the businesses and operations of the Merged Group. Eytan Levy will continue in the role of Executive Director and will be appointed as President of the Products and Innovation Group.

As part of the remuneration package agreed with Mr Charrabé, the Company has issued 11,191,336 Options (the exercisability of which is conditional on Completion of the Proposed Transactions) and agreed to pay US\$600,000 base salary with additional bonuses.

Messrs Philippe Laval, Robert Wowk and Spencer Smith from RWL Water Group will also be appointed as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Merged Group respectively.

No other significant changes to the composition of the senior management team are expected as a result of the Proposed Transactions.

(d) *Any significant changes to the existing business of the Company*

The Company will experience significant changes to the size of its business on Completion. The Company will be merged with RWL Water Group and receive the US\$20,000,000 cash injection from the Seller (or its Related Bodies Corporate) through the issue of the Placement Shares. The Merged Group will operate in multiple jurisdictions offering a range of water treatment solutions, products and services. In addition, the issue of the Placement Shares will provide the Merged Group with critical capital to fund the expanded operations and businesses of the Merged Group.

- (e) *Major changes to the assets, employees and dividend policies of the Merged Group after the Completion*

Upon Completion, the Merged Group will seek to integrate the business of the Company with the businesses of RWL Water Group. This integration might result in the redeployment of assets or employees.

Given that the Company and RWL Water Group for the most part have had their business operations in different areas, such redeployment may be so limited that there would not be significant impacts in practice. However, a detailed functional review of the Merged Group will be undertaken following Completion and therefore the extent of any changes cannot be specifically determined at this stage. It is also currently envisaged that the Company's dividend policies would not change.

## 6.2 Changes to the Capital Structure

The effect of the Proposed Transactions on the Company's issued share capital will be as follows:

Shares in Emefcy Group Limited	No. of Shares	Pre Completion Proportion	Post Completion Proportion
On issue immediately before completion	259,001,054	100%	66.18%
Completion Shares issued at Completion	80,400,000		20.54%
Issue of Placement Shares	31,840,000 <sup>9</sup>		8.14%
Issue of Holdback Shares <sup>10</sup>	20,100,000		5.14%
On issue immediately after completion	<b>391,341,054</b>	<b>100%</b>	<b>100%</b>

## 6.3 Effect on Working Capital Requirements

The Directors are satisfied that after Completion of the Proposed Transactions, the Company will have sufficient working capital to carry out its objectives as previously disclosed and as described in this Explanatory Memorandum.

In particular, the raising of US\$ 20,000,000 through a placement to the Seller (which is subject to shareholder approval), combined with the anticipated combined cash balances at Completion are anticipated to be sufficient to fund the combination of the two groups and execute the Merged Group strategy. The Company will continue to evaluate growth opportunities as they arise together with available funding sources particularly off-balance sheet funding for recurring revenue projects and funding offered by value added sources.

<sup>9</sup> The number of the Placement Shares will depend on the prevailing exchange rate at the time when the Shares are issued.

<sup>10</sup> It is assumed that there are no claims arising from the indemnity provisions under the Sale and Purchase Agreement.

## 6.4 Effect on Financial Position

### (a) *Extract of RWL Water Historical Balance Sheets*

The following Historical Balance Sheet information is extracted from the audited consolidated accounts of RWL Water Group. These audited accounts have been prepared according to US GAAP appropriate for a privately-owned group.

<b>Consolidated RWL Water Group</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Current Assets	36,763	108,717	86,675
Non-Current Assets	17,687	12,799	14,191
Total Assets	54,450	121,516	100,866
Current Liabilities	30,177	103,365	85,945
Non-Current Liabilities	5,501	5,871	3,620
Total Liabilities	35,678	109,236	89,565
Equity	18,772	12,280	11,300

### (b) *Pro forma Consolidated Balance Sheet (unaudited)*

This section contains pro-forma historical financial information relating to the Merged Group (Merged Group Financial Information).

The information in this section should be read in conjunction with other information set out elsewhere in this Explanatory Memorandum, including the Risks set out in Section 4.3 and the Independent Expert's Report.

A draft pro forma consolidated balance sheet for the Company and RWL Water Group as at 31 December 2016 set out in Annexure B illustrates the effect that the Proposed Transactions are likely to have on the Company. The pro forma balance sheet has been prepared on the basis set out in Annexure B.

This pro forma balance sheet does not include the proposed placement of US\$ 20,000,000 to the Seller, which is subject to shareholders' approval. The financial effect of this placement will be to increase both Consolidated Cash and Cash Equivalents and Consolidated Equity by US\$ 20,000,000.

## 6.5 Effect on Financial Performance

### (a) *Revenue*

On a combined basis, the Merged Group would have achieved revenues of US\$62million (A\$83million) in 2016 and anticipate sales in excess of US\$90million (A\$120million) for calendar 2017, 71% of which have already been achieved or are in backlog. Emefcy's revenue contribution for each of these calendar years is less than USD 3 million. For statutory accounting purposes, RWL Water Group results will contribute to the Merge Group results as from Completion.

(b) *Profit and Loss*

The following Historical Profit and Loss information is extracted from the audited consolidated accounts of RWL Water Group. These audited accounts have been prepared according to US GAAP principles appropriate for a privately-owned group.

<b>Consolidated RWL Water Group</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Revenues	40,146	54,879	60,932
Gross Profit	10,172	3,893	11,625
EBITDA	(18,419)	(37,578)	(17,115)
Net loss attributable to RWL Water Group	(25,677)	(25,414)	(14,828)

The Company and RWL anticipate making significant investments in product and business development in the remainder of 2017 and CY2018, contributing to overall net losses for the corresponding periods. The objective is to achieve break-even in 2019.

## 7 ADDITIONAL INFORMATION

### 7.1 ASX confirmation

A listed company has an obligation to notify ASX of a proposed significant change to the nature or scale of its activities under Listing Rule 11. If ASX considers necessary, ASX can exercise its discretion to require the listed company to obtain the approval of its security holders in relation to the change in the nature or scale of its activities (Listing Rule 11.1.2), or to re-comply with ASX's admission requirements (Listing Rule 11.1.3). ASX has confirmed to the Company that Listing Rules 11.1.2 and 11.1.3 do not apply to the Proposed Transactions.

### 7.2 Consents

The following persons have given, and have not, before the date of issue of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- PPB Advisory as Independent Expert; and
- RWL and RSL Investments Corporation.

RWL and RSL Investments Corporation have each given, and have not, before the date of issue of this Explanatory Memorandum, withdrawn their written consent to the inclusion of the RWL Information and the references to that information in the form and context in which they are included in this Explanatory Memorandum.

PPB Advisory as Independent Expert has given, and has not, before the date of issue of this Explanatory Memorandum, withdrawn its written consent to the inclusion of the Independent Expert's Report in Annexure A and references to that report in the form and context in which they are included in this Explanatory Memorandum.

Other than as specifically outlined above, each party referred to in this Section 7.2 has not caused or authorised the issue of this Explanatory Memorandum and does not make or purport to make any statement in this Explanatory Memorandum or any statement on which a statement in this Explanatory Memorandum is based and takes no responsibility for any part of this Explanatory Memorandum other than any reference to its name.

### 7.3 Directors' Shareholdings and Voting Intentions

The number of Shares in which each Director has a relevant interest as at the date of this Notice of Meeting is set out in the table below. As indicated earlier, the Directors recommend the Proposed Transactions and intend to vote in favour of the Resolutions in the Notice of Meeting (to the extent they are entitled to vote on them) in respect of the Shares that they hold or control.

Director	Number of Shares	% of issued Share capital
Richard Irving	28,944,080	11.18%
Eytan Levy	9,267,810	3.58%
Ross Haghghat	Nil	0%
Peter Marks	2,254,403	0.87%
Robert Wale	Nil	0%

## **8 STATEMENT BY DIRECTORS**

The Directors state that they have made all reasonable inquiries and have reasonable grounds to believe that the statements by the Directors in the Notice of Meeting are true and are not misleading and that in respect of statements made in the Notice of Meeting by persons other than Directors, the Directors have made reasonable enquiries and have reasonable grounds to believe that the persons making the statements were competent to do so and those persons have given their consent to be named in the Notice of Meeting in the form and context in which that reference was made and have not withdrawn that consent before the date of the Notice of Meeting.

Each Director of the Company has consented to the issue of the Notice of Meeting and has not withdrawn that consent prior to the date of the Notice of Meeting.

Ross Kennedy  
Company Secretary and Advisor to the Board  
8 June 2017

## 9 GLOSSARY

The following definitions and terms are used in the Notice of Meeting and the Explanatory Memorandum.

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<b>A\$, \$ or Dollars</b>	Australian dollars unless otherwise stated.
<b>AET</b>	Australian Eastern Standard Time.
<b>ASIC</b>	The Australian Securities and Investments Commission.
<b>Associate</b>	Has the meaning given to the term by section 12 and 16 of the Corporations Act.
<b>Astaris Consulting Agreements</b>	A consulting agreement entered into between RWL and Astaris SAS and an options side letter entered into between the Company, RWL and Astaris SAS in connection with the services of Mr Philippe Laval.
<b>ASX</b>	ASX Limited ACN 008 624 691 and where the context requires, the Australian Securities Exchange operated by ASX Limited
<b>Board</b>	The board of Directors of the Company.
<b>BOT Project</b>	A 'build-own-operate-transfer', 'build-operate-transfer' or similar project in relation to a plant or other facility, any material part of which is, or is proposed to be, designed, constructed, commissioned, owned, operated and/or managed by any of RWL Water Group
<b>Business Day</b>	A day that is not a Saturday, Sunday or public holiday in Melbourne, Australia or New York, United States of America.
<b>CEO Employment Agreement</b>	An employment agreement entered into between the Company, RWL and Mr Henry Charrabé.
<b>CEO Options</b>	11,191,336 Options that have been granted to Mr Henry Charrabé to subscribe for fully paid ordinary Shares subject to the terms and conditions under the CEO Employment Agreement.
<b>Closely Related Party</b>	The closely related party as defined in section 9 of the Corporations Act
<b>Company or Emefcy</b>	Emefcy Group Limited (ACN 127 734 196).
<b>Completion</b>	Completion occurs when completion of the acquisition of the LLC Interests under the Sale and Purchase Agreement occurs.
<b>Completion Cash Consideration</b>	US\$10,000.
<b>Completion Shares</b>	80% of the Consideration Shares.

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<b>Consideration Shares</b>	100,500,000 Shares, to be issued in consideration for acquiring the LLC Interests.
<b>Corporations Act</b>	The Australian <i>Corporations Act 2001</i> (Cth).
<b>Director</b>	A director of the Company.
<b>Eligible Shareholder</b>	The relevant Shareholders on the Record Date.
<b>Emefcy Information</b>	The information contained in this Explanatory Memorandum other than the RWL Information and information contained in or relating to Annexure A (Independent Expert's Report).
<b>Equity Security</b>	Has the meaning given in the Listing Rules.
<b>ESOP</b>	The Employee Share Option Plan which was approved by the Shareholders at the general meeting held on 17 November 2015.
<b>Explanatory Memorandum</b>	This explanatory memorandum, prepared by the Company and sent to Shareholders in respect of the Resolutions.
<b>FY</b>	Financial Year.
<b>Holdback Period</b>	The 12 month period beginning on the date of Completion, during which the Holdback Shares are not required to be issued by the Company.
<b>Holdback Shares</b>	20% of the Consideration Shares calculated at Completion which will be held back in order to satisfy claims, if any, arising from the indemnities given to the Company under the Sale and Purchase Agreement.
<b>Independent Expert or PPB Advisory</b>	PPB Corporate Finance Pty Limited ABN 13 130 176 911.
<b>Independent Expert's Report or IER</b>	The independent expert's report prepared by the Independent Expert and included at Annexure A.
<b>Insolvency Event</b>	A liquidation or winding up, the appointment of a controller, administrator, receiver, manager or similar insolvency administrator to a party or any substantial part of its assets or the entering into a scheme or arrangement with creditors or the occurrence of any event that has a substantially similar effect to any of these events.
<b>KMP</b>	The key management personnel of the Company as defined under section 9 of the Corporations Act
<b>Listing Rules</b>	The official listing rules of ASX.
<b>LLC Interests</b>	The limited liability company interests in RWL as described in the Sale and Purchase Agreement.

<b>Lock-Up Agreement</b>	An agreement to be entered into between the Seller and the Company restricting the Seller from selling, transferring or otherwise disposing of any Consideration Shares for a two-year period commencing on Completion (except in the specific circumstances described in the Sale and Purchase Agreement or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18).
<b>Material Adverse Change</b>	Subject to certain limitations described in the Sale and Purchase Agreement, a matter, event or circumstance that has resulted, or would reasonably be expected to result, individually, or when aggregated with other matters, events or circumstances, in (i) a material adverse change in the financial condition or operations of the relevant person or Group or the relevant person's or Group's businesses (taken as a whole) or (ii) an adverse change in the cash flows of the Group that immediately threatens the viability of the Group, taken as a whole, as a going concern.
<b>Meeting</b>	The extraordinary general meeting of Shareholders, which is the subject of this Notice of Meeting.
<b>Merged Group</b>	The Company and its Subsidiaries following Completion.
<b>Merged Group Board</b>	The Board following Completion.
<b>Merged Group Financial Information</b>	The pro-forma historical financial information relating to the Merged Group as set out in Sections 6.4 and 6.5, including the adjustments to the relevant historical financial information to generate such pro-forma financial information.
<b>Mexico BOT Project</b>	The BOT Project, known as the 'San Quintin Project', for which RWL Desal Holding S. de R.L. de C.V., Libra Ingenieros Civiles S.A. de C.V. and RJ Ingenieria S.A. de C.V. incorporated a Mexican company, Desaladora Kenton S.A. de C.V. (RJ) on December 17, 2015 for the sole purpose of participating in the BOT Project for the desalination plant in San Quintin, Ensenada, Baja California., which is described in more detail in Section 2.4(g).
<b>Mexico BOT Project Funds</b>	US\$5,400,000, which is to be used by the relevant member of RWL Water Group to pay its equity commitments under the Mexico BOT Project.
<b>Notice of Meeting</b>	The notice of meeting including this Explanatory Memorandum and the Proxy Form.
<b>Option</b>	An option to acquire a Share in accordance with the terms and conditions determined at the time of the issue.
<b>PDVSA Agreement</b>	An agreement between PDVSA Agricola and RWL Argentina entered into on 30 June 2014, which is described in more detail in Section 4.3(c).

<b>Placement Shares</b>	31,840,000 Shares (assuming a US\$/AU\$ exchange rate of 0.7390) to be issued to the Seller (or its Related Bodies Corporate) at a price of A\$0.85 to raise US\$ 20,000,000 pursuant to the Private Placement Letter Agreement.
<b>Private Placement Letter Agreement</b>	The letter agreement between the Company and the Seller, pursuant to which Seller agrees to subscribe (or procure that its Related Bodies Corporate subscribe) for the Placement Shares with an aggregate subscription price of US\$20,000,000, subject to the terms and conditions set forth therein.
<b>Proposed Transactions</b>	The transactions proposed by the Company requiring Shareholder approval: <ul style="list-style-type: none"> <li>■ to acquire the LLC Interests from the Seller in consideration for which the Company will issue the Consideration Shares to the Seller, subject to adjustments set out in the Sale and Purchase Agreement; and</li> <li>■ to issue the Placement Shares.</li> </ul>
<b>Proxy Form</b>	The proxy form attached to this Notice of Meeting.
<b>Record Date</b>	The date for determining the Eligible Shareholders for participation in the Meeting, anticipated to be 11:00am on 10 July 2017
<b>Related Body Corporate</b>	Has the meaning given to that term in section 50 of the Corporations Act.
<b>Relevant Interest</b>	Has the meaning given to that term in the Corporations Act.
<b>Resolution</b>	A resolution proposed in the Notice of Meeting accompanying this Explanatory Memorandum.
<b>RG 74</b>	ASIC Regulatory Guide 74, Acquisition approved by members.
<b>RG 111</b>	ASIC Regulatory Guide 111, Content of expert reports.
<b>RWL</b>	RWL Water LLC which is the top holding company of RWL Water Group and owns operating companies within RWL Water Group.
<b>RWL Argentina</b>	Unitek S.A. and all of its Subsidiaries (whether wholly or partly owned).
<b>RWL Business</b>	Business carried on by RWL Water Group of providing global solutions for desalination, wastewater, waste-to-energy and waste recovery and reuse, as it is presently conducted by RWL Water Group.
<b>RWL Information</b>	All information regarding the Seller or RWL Water Group (including updates to that information) provided by or on behalf of the Seller and RWL Water Group for inclusion in this Explanatory Memorandum, consisting of the information contained in Sections 2.4, 2.5, 6.4(a) and 6.5(b) and other statements in this Explanatory Memorandum that the Seller and RWL Water Group have

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confirmed in writing have been provided by or on behalf of the Seller and RWL Water Group.

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<b>RWL Investments</b>	RWL Water Investments Ltd and all of its Subsidiaries (whether wholly or partly owned).
<b>RWL Israel</b>	RWL Water Israel Ltd. and all of its Subsidiaries (whether wholly or partly owned).
<b>RWL Italy</b>	RWL Water Italia S.r.l. and all of its Subsidiaries (whether wholly or partly owned).
<b>RWL Middle East</b>	RWL Middle East FZE, a Free Zone Establishment company in Dubai with limited liability.
<b>RWL USA</b>	Aeromix Systems Inc.
<b>RWL Water Group</b>	RWL, RWL Argentina, RWL Investments, RWL Israel, RWL Middle East, RWL Italy and RWL USA and their respective Subsidiaries.
<b>Sale and Purchase Agreement</b>	The agreement between the Company and the Seller executed on 26 May 2017 for the Company to purchase the LLC Interests from the Seller.
<b>Seller</b>	RSL Investments Corporation.
<b>Share</b>	A fully paid ordinary share in the Company.
<b>Share Registry</b>	Boardroom Pty Ltd ABN 14 003 209 836.
<b>Shareholder</b>	The registered holder of Shares in the Company.
<b>Subsidiary</b>	Has the meaning given to that term in section 46 of the Corporations Act.
<b>US GAAP</b>	US Generally Accepted Accounting Principles.
<b>US\$ or USD</b>	Dollars in the currency of the United States of America.
<b>Voting Power</b>	Has the meaning given to that term in section 610 of the Corporations Act.

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## **Annexure A - Independent Expert's Report**

## **Emefcy Group Limited**

### **Independent Expert's Report and Financial Services Guide**

Proposed Acquisition and Share Placement

6 June 2017



# PART 1: FINANCIAL SERVICES GUIDE

## PPB Corporate Finance Pty Ltd

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

## Engagement

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

## Financial Services Guide

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

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

## PPB is licensed to provide financial services

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

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

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

## General financial product advice

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

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

An individual's decision in relation to voting on the Proposed Transaction, as described in the Notice of Meeting and

Explanatory Memorandum, may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

## Remuneration

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

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

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

## Independence

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

## Complaints resolution

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

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

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

Financial Ombudsman Service Limited  
 GPO Box 3  
 Melbourne VIC 3001  
 Toll free: 1300 78 08 08  
 Email: [info@fos.org.au](mailto:info@fos.org.au)  
 Web: [www.fos.org.au](http://www.fos.org.au)

## PART 2: INDEPENDENT EXPERT'S REPORT

6 June 2017

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

Dear Directors

### Independent Expert's Report and Financial Services Guide

#### 1. Introduction

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

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

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

#### 2. The Proposed Acquisition and Share Placement

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

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

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<sup>1</sup> No Directors are not associated with the Proposed Transactions

<sup>2</sup> In addition to issuing the Consideration shares, Emefcy will pay USD10,000 of the completion cash consideration under the SPA in consideration for acquiring the LLC Interests (refer to the Explanatory Memorandum and Notice of Meeting for further details).

<sup>3</sup> At AUD/USD exchange rate of 0.85 equates to AUD23.5 million.

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

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

### 3. Purpose of this Report

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

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

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

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

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

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

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

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<sup>4</sup> AUD:USD exchange rate of AUD0.76

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

## 4. Basis of evaluation

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

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

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

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

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

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

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

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

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

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

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

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

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

## 5. Summary and conclusion

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

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

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

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

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

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

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

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

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

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

### The Proposed Transactions are fair

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

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

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<sup>6</sup> At 31 March 2017 for the purposes of the IER

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

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

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

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

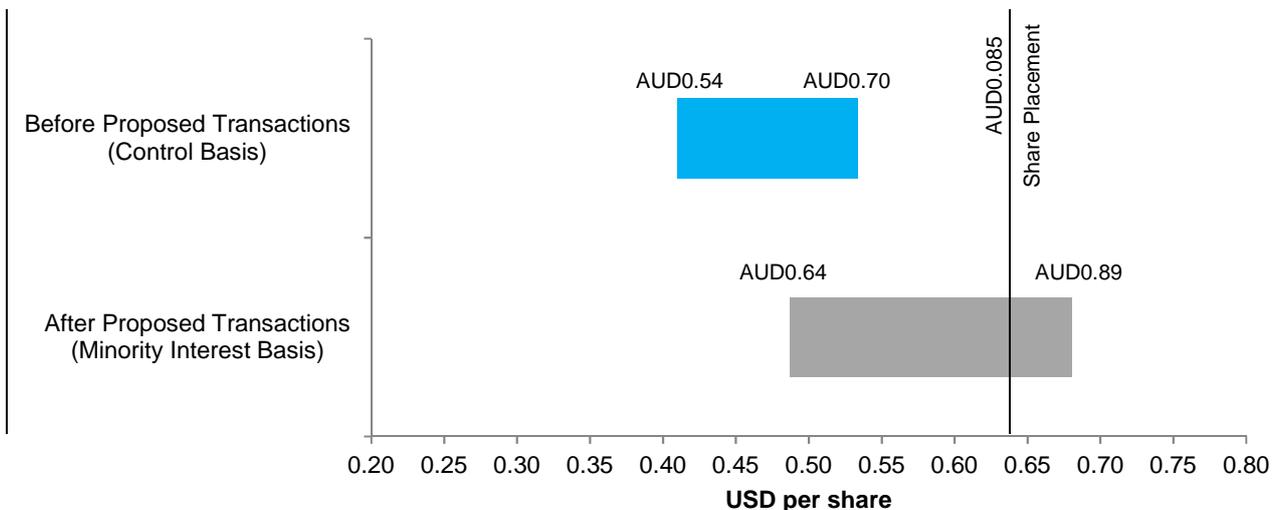
We have assessed the fair market value of an issued share in Emeffy:

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

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

A summary of our fairness assessment is set out Section 11

**Figure 1: Fairness summary – Proposed Transactions**



Source: PPB Analysis

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

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

<sup>7</sup> At 31 March 2017, AUD0.850 converted at AUD:USD 0.76

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

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

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

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

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

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

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

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

### **The Proposed Transactions are reasonable**

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

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

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

#### **Advantages**

##### **Cash injection**

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

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<sup>8</sup> The discount applied is the inverse of the control premium commonly paid in takeovers. We have assessed control premiums to be in the range of 25% to 35%.

<sup>9</sup> Based on premiums for control for recent transactions calculated by PPB, refer Appendix F.

### **Cornerstone investor**

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

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

### **Increased scale and diversification**

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

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

### **Access to engineering expertise**

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

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

### **Global presence**

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

### **Focus of management**

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

### **Experienced management team**

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

### **Market reputation**

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

### **Continue as a Shareholder**

Shareholders will continue to hold their shares in Emefcy.

### **Cost synergies with the acquisition of RWL**

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

## Support of Emefcy's major Shareholders

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

## Recommendation of Directors

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

## Alternative options

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

## Disadvantages

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

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

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

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

### Dilution

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

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

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

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

### Significant influence by RSL

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

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<sup>10</sup> Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F

### **Change in operating activities**

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

### **Less attractive takeover target**

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

### **Diversion of management resources from core operations**

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

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

### **No alternatives**

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

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

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

### **RWL's liabilities**

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

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

### **Pricing of the Share Placement**

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

### **Risks associated with the Proposed Transactions**

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

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<sup>11</sup> The issue price of USD0.648 per share is based on the implied transaction equity value and AUD0.850 issue price as defined in the Explanatory Memorandum.

<sup>12</sup> USD0.648 based on an exchange rate of AUD:USD of 0.76.

## 6. Other factors

If the Proposed Transactions are not approved:

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

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

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

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

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

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

## 8. Other matters

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

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

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

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

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

Yours faithfully

**PPB Corporate Finance Pty Ltd**



**Fiona Hansen**  
Authorised Representative  
AR Number 246371



**Campbell Jaski**  
Director

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## Appendices

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

All reference to AUD are Australian dollars unless stated otherwise.

## 1. Summary of the Proposed Transaction

### 1.1 The Proposed Transaction

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

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

### 1.2 Impact on Shareholders

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

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

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

Source: PPB analysis, Notice of Meeting

<sup>13</sup> In addition to issuing the Consideration shares, Emefcy will pay USD10,000 of the completion cash consideration under the SPA in consideration for acquiring the LLC Interests (refer to the Explanatory Memorandum and Notice of Meeting for further details).

<sup>14</sup> AUD:USD exchange rate of AUD0.76

### 1.3 Rationale for the Proposed Transaction

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

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

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

### 1.4 Conditions precedent

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

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

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

## 2. Scope of the report

### 2.1. Purpose and scope

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

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

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

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

### 2.2. Regulatory requirements

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

#### *Corporations Act*

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

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

The Proposed Transactions will result in:

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

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

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

#### *ASIC Regulatory Guides*

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

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

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

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

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

- the criteria to analyse a control transaction should consider if the offer is 'fair' and if it is 'reasonable'. 'Fair and reasonable' is not regarded as a compound phrase
- an offer is considered to be 'fair' if the value of the consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the 'target' when making this comparison
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

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

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

## 2.3. Our approach

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

### *Fairness*

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

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

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

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

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

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

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

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

### **Reasonableness**

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

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

## **2.4. Definition of value**

### **Fair market value**

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

For the purposes of our opinion, the term "fair market value" is defined as:

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

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

## Special value

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

## 2.5. Valuation date

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

## 2.6. Shareholders' decision

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

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

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

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

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

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

## 2.7. Consent and other matters

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

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

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

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

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

## 2.8. Sources of information

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

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

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

### 3. Overview of Emefcy

#### 3.1. Brief history and overview of operations

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

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

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

Emefcy's technologies include the following:

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

This solution saves energy by eliminating the need to blow compressed air into the depth of the water for aeration, through the implementation of Emefcy's patented passive aeration process. MABR technology is ideal for small to medium wastewater treatment plants e.g. small municipalities, rural villages, hotels, resorts, casinos, campgrounds, mining camps, commercial centres and golf courses.

- **Electrogenic Bio Reactors ('EBR')**: An innovative solution based on microbial fuel cell technology. This technology enables direct electricity generation from wastewater as a means for wastewater treatment. Unlike conventional treatment methods, an electric current is produced, rather than energy being consumed during the process. The EBR system comprises of three components new to biological wastewater treatment:
  - anodes (in anaerobic conditions): where the bacterial oxidation of the organic matter occurs
  - cathodes (which are exposed to air): where the corresponding reduction reaction takes place
  - an electrical circuit that includes the external load, connecting the anodes to the cathodes.

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

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

**Table 2: Summary key milestones**

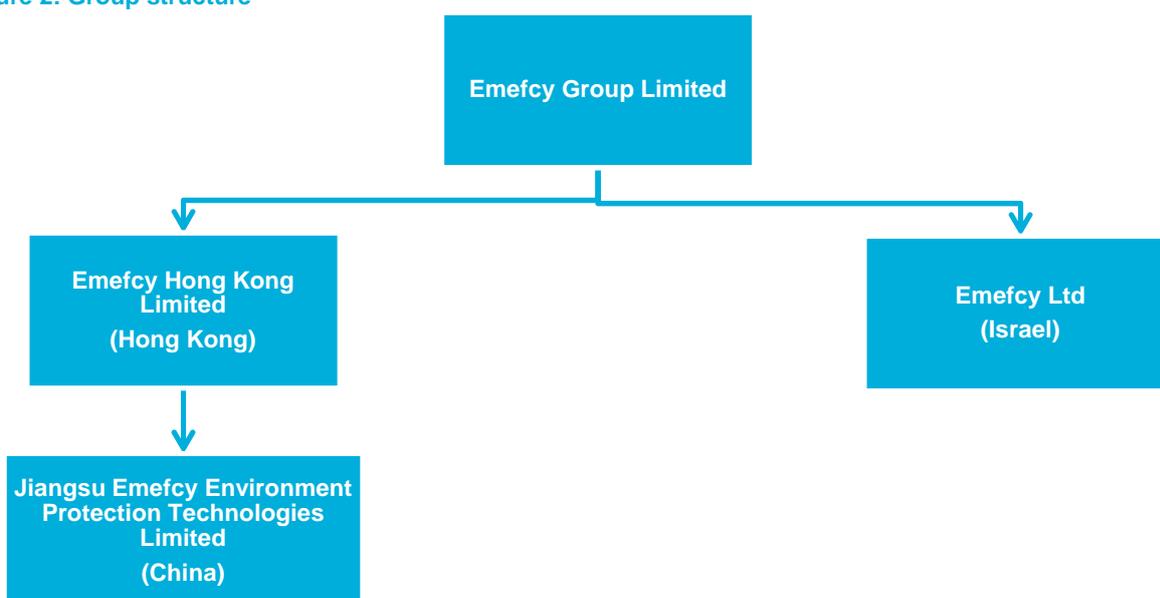
Date	Key milestones
22 Dec 2015	Notice announcing Emefcy (formerly Savcor Group Limited) being reinstated on the ASX to commence 23 Dec 2015
19 Jan 2016	Announcement of 2016 goals, long term vision and flagging China as a target market
09 Feb 2016	Update provided on first commercial scale municipal installation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

Source: Emefcy group website, Management

### 3.2. Group Structure

The Emefcy group structure is summarised in Figure 2.

**Figure 2: Group structure**



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

### 3.3. Business outlook

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

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

### 3.4. Directors

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

**Table 3: Summary directors**

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

Source: *Emefcy website and Management*

### 3.5. Capital structure

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

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

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

Source: *Management and PPB Advisory analysis*

Notes to the above table:

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

The first commercial milestone was satisfied last year, resulting in the issue of 22.5 million shares to the Emefcy vendors. Some of those shares are subject to voluntary escrow, and, if and when issued, some of the other 22.5 million shares to be issued if the second milestone is satisfied will also be subject to voluntary escrow. All escrow conditions relating to the Emefcy vendor shares will be released by 23 December 2017.

2. Second milestone shares: relate to the obligation for the Company to issue a further 22.5 million shares to Emefcy vendors upon the satisfaction of the second milestone ie. achieving cumulative USD2 million in sales within 24 months of the transaction completion date (18 December 2015). The directors are reasonably satisfied that this milestone will be achieved.

**Table 5: Emefcy's options on issue**

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

Source: Management

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

### 3.6. Capital raisings

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

**Table 6: Summary of capital raisings**

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

Source: ASX announcements and PPB Advisory analysis

Comments on the above table:

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

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

### 3.7. Top 10 Shareholders

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

**Table 7: Top 10 Shareholders**

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

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

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

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

### 3.8. Share price performance

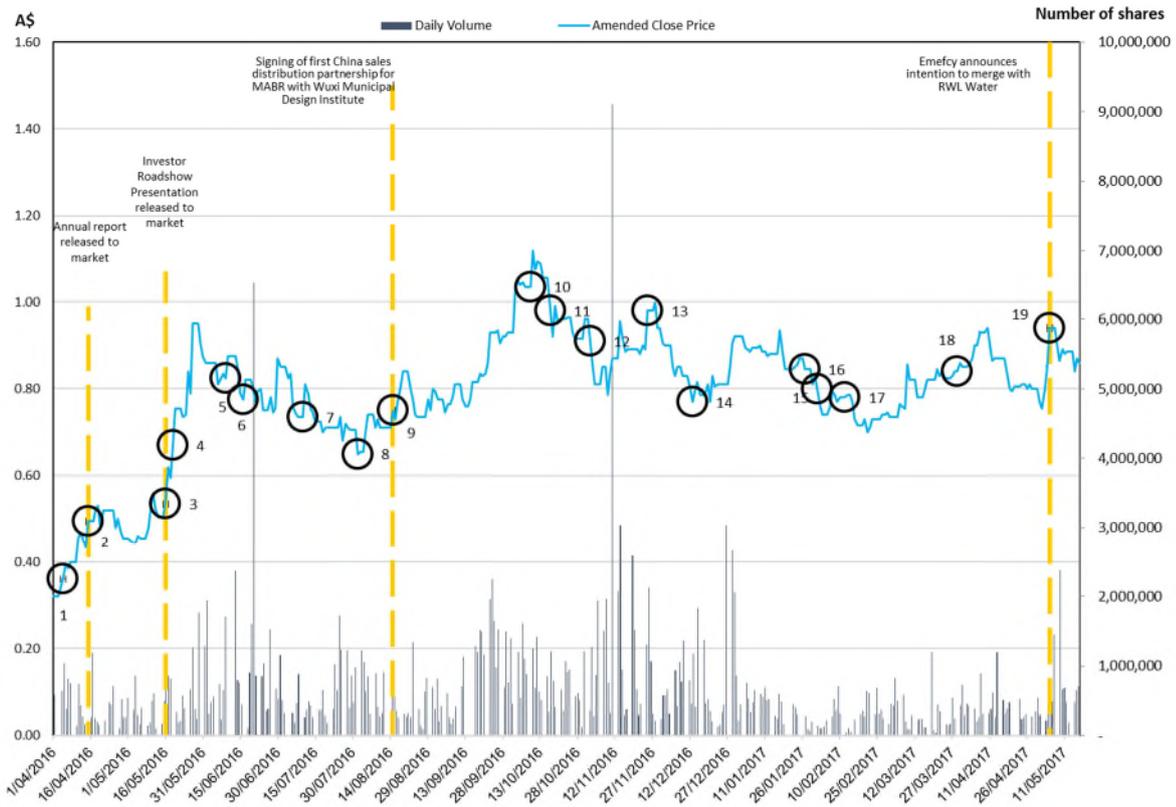
In assessing Emefcy's share price performance over the one year period to 31 March 2017, we have:

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

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

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

Figure 3: Emefcy's historical share performance



Source: S&P Capital IQ

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

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

The key events impacting the share price are as follows:

**Table 8: Key events related to historical share performance**

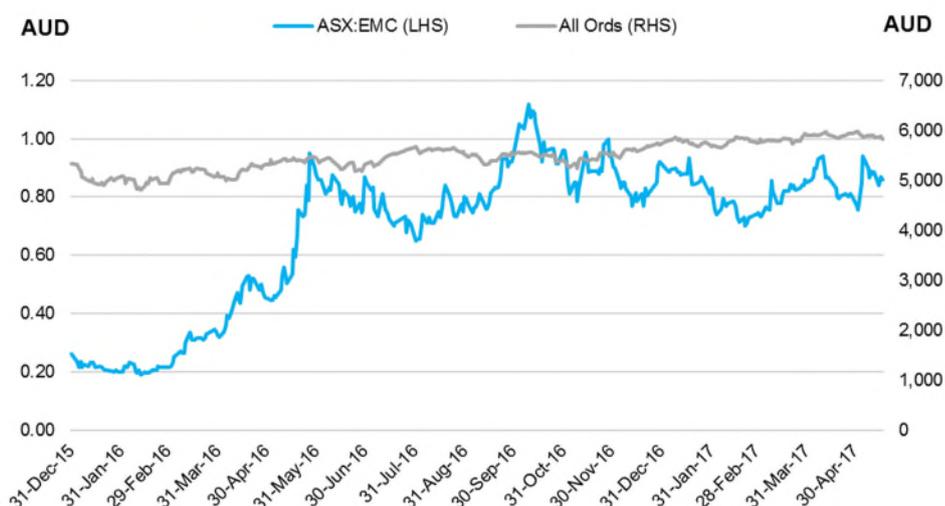
Date	Volume traded	Price change	Title of ASX announcement	Label
5 April 2016	908,260	5.88%	EMC expands Team with key Board and Executive Appointments	1
15 April 2016	1,526,410	13.79%	Annual Report to shareholders	2
16 May 2016	381,000	5.94%	Australian Investor Roadshow Presentation May 2016	3
19 May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

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

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

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

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



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

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

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

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

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

Source: S&P Capital IQ, PPB analysis

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

### 3.9. VWAP analysis

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

**Table 10: VWAP analysis up to 31 March 2017**

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

Source: S&P Capital IQ

Notes:

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

In relation to the above table, we note:

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

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

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

**Table 11: VWAP analysis after announcement date 5 May 2017**

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

Source: S&P Capital IQ

Notes:

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

In relation to the above table, we note:

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

### 3.10. Historical financial performance

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

**Table 12: Summary of financial performance**

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

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

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

#### Revenue

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

**Table 13: Summary revenue**

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

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

Comments on revenue:

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

### **Operating costs**

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

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

### **EBITDA**

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

### **Impairment of intangible assets**

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

### **Other**

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

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

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

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

### 3.11. Historical financial position

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

**Table 14: Summary of financial position**

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

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

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

**Table 15: Cash and cash equivalent**

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

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

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

**Table 16: Summary of property, plant and equipment**

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

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

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

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

**Table 17: Other financial liabilities**

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

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

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

These payables are subject to the satisfaction of certain milestones:

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

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

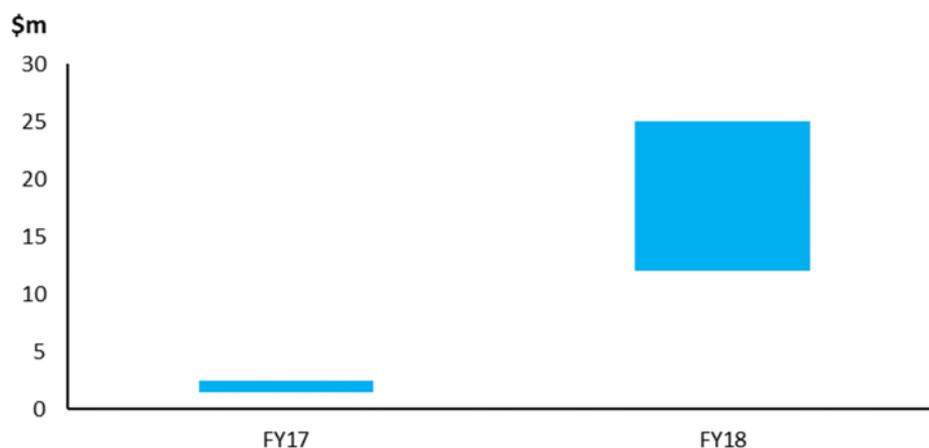
### 3.12. Audit report

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

### 3.13. Forecast financial performance

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

Figure 5: Forecast revenue range



Source: Management

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

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

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

## 4. Overview of RWL

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

### 4.1. Brief history and overview of operations

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

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

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

The key operating entities include:

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

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

Figure 6: RWL locations



Source: RWL

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

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

RWL has developed the following product and services:

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

Table 18 summarises key milestones over the last 7 years.

**Table 18: Summary of key milestones**

Date	Key milestone
2010	<ul style="list-style-type: none"> <li>• Ronald Lauder establishes RWL Water Group.</li> <li>• RWL Water acquires Nirosoft Industries, an Israeli company focused on providing seawater desalination, high purity water systems, demineralized water, mobile and emergency units.</li> <li>• RWL Water acquires Aeromix Systems, Inc., an American company and expert manufacturer of aeration equipment and packaged wastewater treatment plants.</li> </ul>
2011	<ul style="list-style-type: none"> <li>• RWL Water acquires Eurotec WTT, an Italian company and renowned manufacturer of anaerobic digestion systems, aerobic and anaerobic wastewater treatment plants and ion exchange systems.</li> <li>• RWL Water establishes international sales offices in Chile, Colombia and Mexico.</li> </ul>
2013	<ul style="list-style-type: none"> <li>• RWL Water Aeromix acquires the assets of Tipton Environmental, a packaged wastewater treatment manufacturer in Ohio</li> <li>• RWL Water Nirosoft aligns with Nubian as a strategic partner to provide complete end-to-end water solutions in Australia.</li> <li>• RWL Water Eurotec establishes Maiveo, a company focused on serving the water and wastewater treatment markets in France.</li> <li>• RWL Water acquires Unitek S.A., a leader in water treatment in South America and an expert in applying membrane based technologies including reverse osmosis, ultrafiltration and membrane bioreactors, among other complex systems for process water and reuse.</li> </ul>
2014	<ul style="list-style-type: none"> <li>• RWL Water establishes international sales office in Dubai</li> <li>• RWL Water rebrands and changes company name from RWL Water Group to RWL Water. Portfolio companies eliminate their heritage names and also change to "RWL Water". As a result, the global solutions provider operates now as one company worldwide.</li> </ul>
2015	<ul style="list-style-type: none"> <li>• RWL Water partners with Praxair, a global supplier of industrial gases and technologies that apply pure oxygen for unparalleled wastewater treatment.</li> <li>• RWL Water launches the EcoBox™ in Latin America, an innovative, containerized solution that will change the paradigm of wastewater reuse.</li> </ul>
2016	<ul style="list-style-type: none"> <li>• RWL Water establishes an office in Brazil.</li> <li>• RWL Water announces joint venture with Química Apollo in response to Mexico's growing water and wastewater needs.</li> </ul>

Source: Management



## 4.4. Directors

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

**Table 19: Directors**

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

Source: RWL website and Management

## 4.5. Capital structure

RSL owns 100% of the LLC interests in RWL.

## 4.6. Historical financial performance

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

**Table 20: Summary of financial performance**

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

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

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

**Table 21: Summary of entities consolidated**

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

Note: 1. Since January 2017, RWL Water Italia S.r.l., is 100% owned by RWL Water, LLC.

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

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

### **Revenue**

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

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

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

### **EBITDA**

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

### **Impairment of intangible assets**

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

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

### **Other**

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

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

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

## 4.7. Historical financial position

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

**Table 22: Summary historical financial position**

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

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

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

**Table 23: cash and cash equivalents**

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

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

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

**Table 24: Summary of intangible assets**

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

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

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

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

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

#### 4.8. Forecast financial performance

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

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

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

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

## 5. Industry overview

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

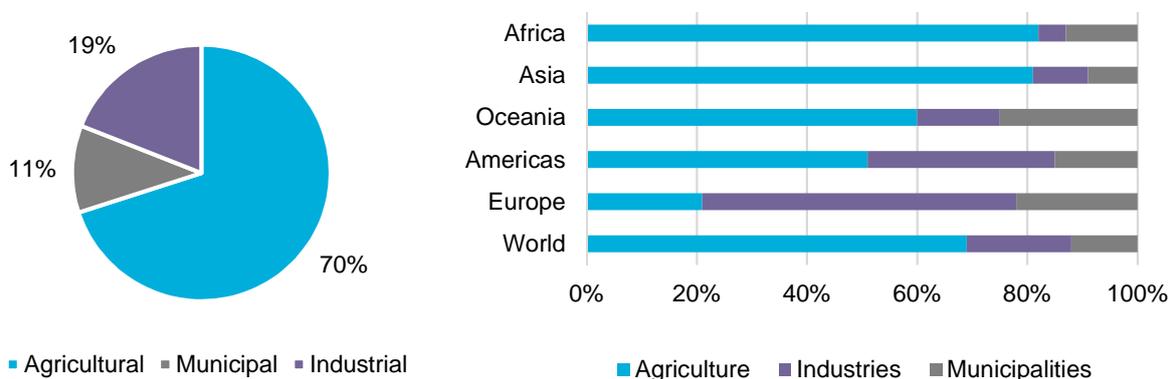
### 5.1. Introduction

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

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

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

Figure 8: Global water usage



Source: FAO. 2016. AQUASTAT website.

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

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

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

<sup>16</sup> IBISWorld report – Water and Waste Services Infrastructure Construction in Australia –Industry report OD5165 – April 2017, and IBISWorld report – Water Treatment Services in Australia –Industry report OD5422 – June 2016

<sup>17</sup> The World Bank – High and Dry: Climate Change, Water and the Economy – published 4 April 2017

<sup>18</sup> FAO. 2016. AQUASTAT website. Food and Agriculture Organization of the United Nations (FAO). Website accessed on 10 May 2017

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

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

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

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

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

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

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

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

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<sup>19</sup> Emefcy ASX announcement 'AGM Presentation' – 5 May 2017

## 6. Relevant economic factors

### 6.1. Introduction

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

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

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

### 6.2. Population and industry growth rates

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

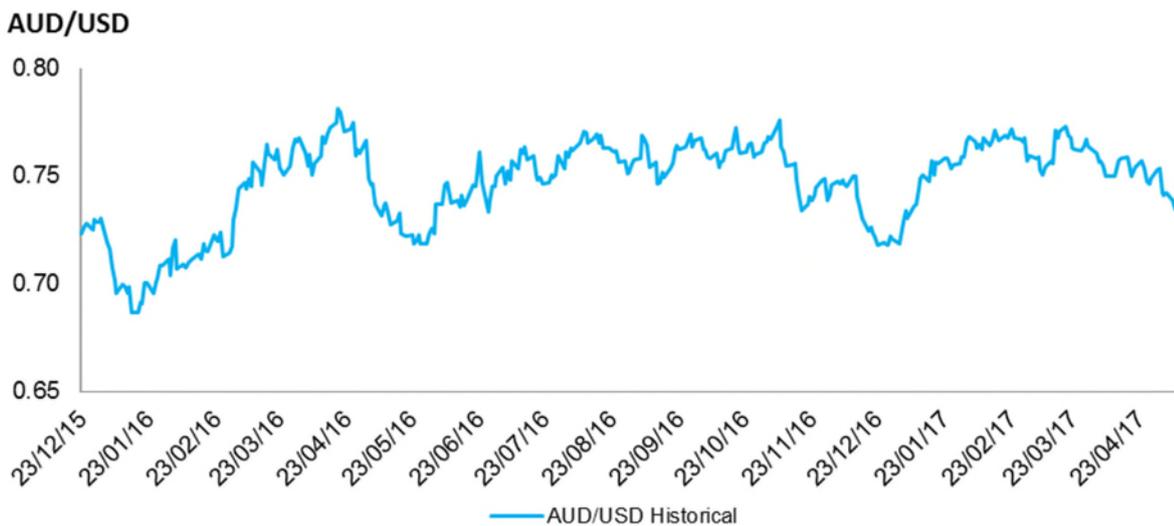
During FY15 the Australian economy consumed 17,375 gegalitres, of which, 15,522 gegalitres was consumed by industry and 1,852 gegalitres consumed by households<sup>20</sup>.

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

### 6.3. Exchange rate movements

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

Figure 9: Exchange rate



Source: Bloomberg

<sup>20</sup> Australian Bureau of Statistics '4610.0 - Water Account, Australia, 2014-15, published 25 November 2016

**Emefcy**

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

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

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

**RWL**

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

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

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

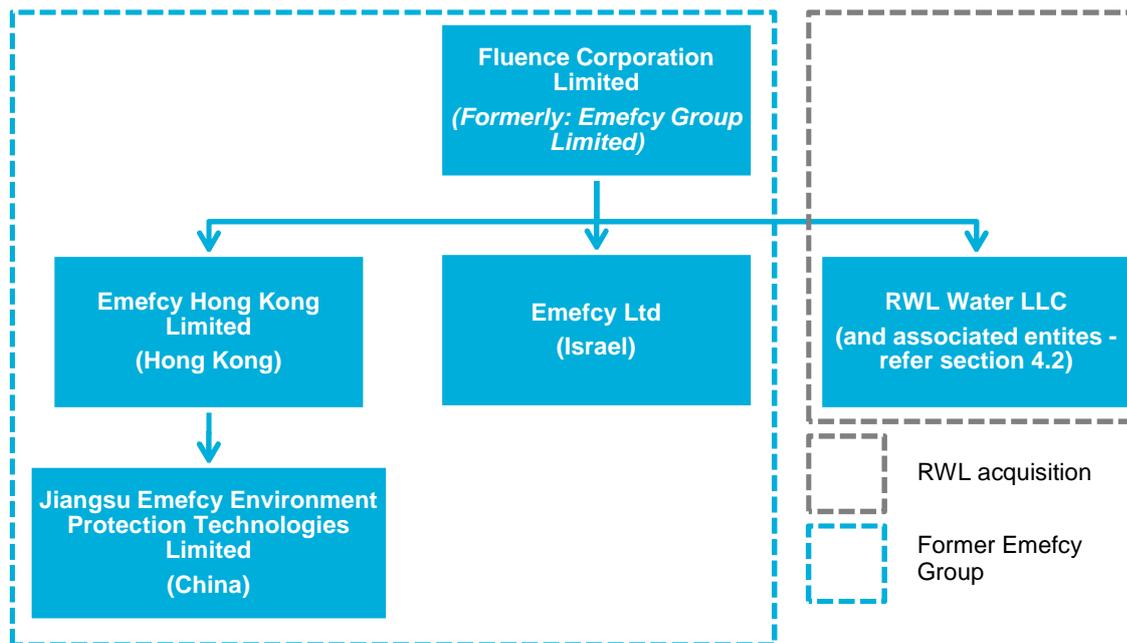
## 7. The Combined Group

### 7.1. Proposed Combined Group structure

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

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

Figure 10: Summary Combined Group structure



Source: Explanatory Memorandum

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

### 7.2. Business operations

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

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

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

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

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

### 7.3. Strategy

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

### 7.4. Shareholdings of the Combined Group

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

**Table 25: Summary shareholdings**

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

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

*Source: PPB analysis*

*May not add due to rounding*

### 7.5. Directors and key management

The board of the Combined Group will comprise:

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

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

**Table 26: Directors and key management**

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

Source: Management

## 7.6. Management incentive plan

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

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

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

## 7.7. Cost synergies

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

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

## 7.8. Pro forma financial performance

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

## 7.9. Pro forma financial position

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

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

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

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

Source: Explanatory Memorandum, Notice of Meeting and PPB analysis

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

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

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

### ***Comments on the pro forma balance sheet after the Proposed Transactions***

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

## **7.10. Forecast financial results**

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

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

### **Comments on the forecast:**

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

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

### 7.11. Change in risk profile

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

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

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

## 8. Valuation methodologies

### 8.1. Introduction

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

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

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

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

### 8.2. Valuation methodologies

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

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

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

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

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

### 8.3. Methodology selected to value Emefcy

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

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

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

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

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

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

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

### 8.4. Cross check methodologies

#### *Quoted market price*

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

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

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<sup>21</sup> Chapter 10 revenue multiples NYU Stern School of Business

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

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

#### *Recent capital raisings undertaken by the Company*

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

#### *NA method*

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

### **8.5. Methodology selected to value Combined Group**

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

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

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

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

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

### **8.6. Selection of earnings metric**

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

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

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

## 9. Valuation of Emefcy, before the Proposed Transactions

### 9.1. Summary

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

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

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

Source: PPB analysis

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

### 9.2. Maintainable revenue

We have assessed maintainable revenue, USD18.5 million.

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

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

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

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

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

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

### 9.3. Capitalisation multiple

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

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

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

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

#### Share market evidence

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

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

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

**Table 29: Summary of potentially comparable listed company multiples**

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

Source: S&P Capital IQ and PPB analysis

Notes:

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

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

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

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

### **Control premium analysis**

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

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

**Table 30: Control premium analysis**

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

Source: PPB analysis

### **Potentially comparable transaction multiples**

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

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

**Table 31: Summary of potentially comparable transactions since 2014**

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

Source: S&P Capital IQ and PPB analysis

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

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

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

#### **Key operational characteristics of Emefcy**

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

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

## **9.4. Surplus assets**

Emefcy had no surplus assets at the Valuation Date<sup>22</sup>.

## **9.5. Net cash**

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

<sup>22</sup> Source: Emefcy 31 December 2016 annual report

## 9.6. Number of shares on issue

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

In addition, there were:

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

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

## 9.7. Valuation cross check

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

### Analysis of recent capital raisings

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

**Table 32: Summary capital raisings**

Date	Details	USD per share
1 October 2015	Savcor transaction	0.20
25 July 2016	Private placement	0.45
15 May 2017	Private placement <sup>23</sup>	0.63

Source: Emefcy ASX announcements

### Analysis of trading price of Emefcy shares

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

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

<sup>23</sup> USD0.63, calculated based on a share price of AUD0.85 and a AUD/USD exchange rate of 0.74

<sup>24</sup> Calculated at 31 March 2015 at AUD:USD 0.76

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

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

Source: S&P Capital IQ, PPB analysis

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

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

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

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

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

Source: S&P Capital IQ PPB analysis

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

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

### Analysis net assets cross check

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

**Table 36: Net asset value as at 31 December 2016**

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

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

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

## 10. Valuation of Combined Group, after the Proposed Transactions

### 10.1. Summary

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

**Table 37: Summary valuation - After Proposed Transactions**

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

Source: PPB analysis

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

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

### 10.2. Maintainable revenue

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

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

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

<sup>25</sup> Minority interest discount has been calculated as follows:  $1 - [1 / (1 + 30\% \text{ control premium})]$

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

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

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

### 10.3. Capitalisation multiple

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

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

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

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

#### *Share market evidence*

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

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

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

### 10.4. Surplus assets

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

## 10.5. Net cash

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

**Table 38: Pro forma cash of Combined Group**

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

Source: Management

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

## 10.6. Number of Shares on issue

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

**Table 39: Shares on issue after the Proposed Transactions**

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

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

Source: Management, Notice of Meeting, PPB Analysis

## 10.7. Minority interest discount

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

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

<sup>26</sup> Minority interest discount has been calculated as follows:  $1 - [1 / (1 + 30\% \text{ control premium})]$

## 10.8. Valuation cross check

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

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

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

**Table 40: VWAP analysis after announcement date 5 May 2017**

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

Source: S&P Capital IQ

Notes:

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

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

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

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

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

## 11. Assessment of the Proposed Transactions

### 11.1. Conclusion

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

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

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

### 11.2. Approach

#### *Fairness*

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

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

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

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

#### *Reasonableness*

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

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

### 11.3. The Proposed Transaction is fair

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

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

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

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

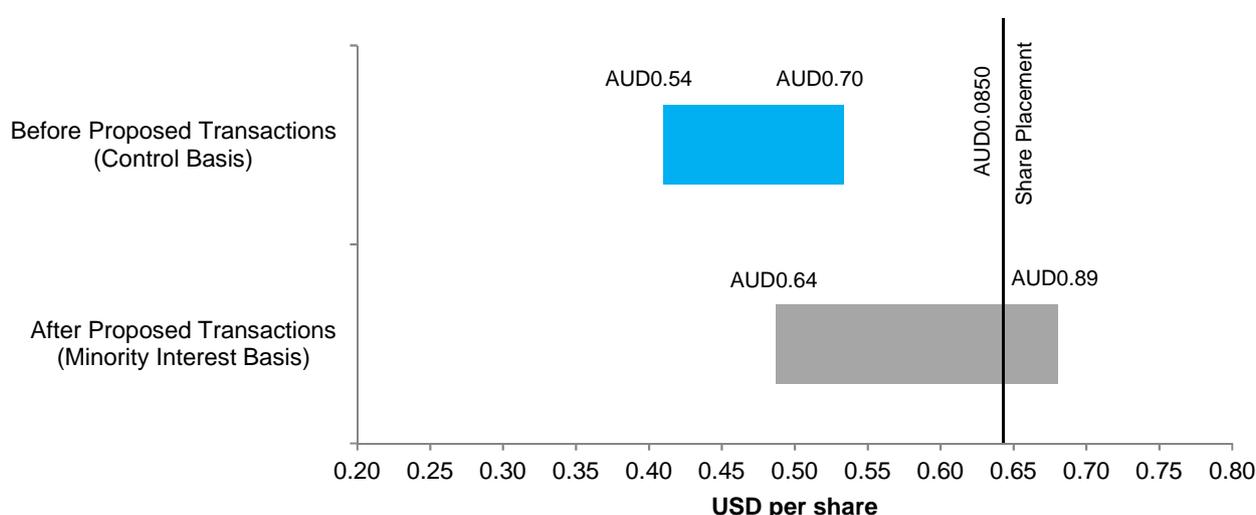
We have assessed the fair market value of an issued share in Emefcy:

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

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

A summary of our fairness assessment is set out Section 11

**Figure 11: Fairness summary – Proposed Transactions**



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

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

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

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

<sup>27</sup> At 31 March 2017, AUD0.850 converted at AUD:USD 0.76

<sup>28</sup> The discount applied is the inverse of the control premium commonly paid in takeovers. We have assessed control premiums to be in the range of 25% to 30%.

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

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

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

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

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

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

#### 11.4. The Proposed Transactions are reasonable

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

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

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

##### Advantages

###### Cash injection

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

###### Cornerstone investor

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

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

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<sup>29</sup> Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F.

### **Increased scale and diversification**

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

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

### **Access to engineering expertise**

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

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

### **Global presence**

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

### **Focus of management**

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

### **Experienced management team**

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

### **Market reputation**

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

### **Continue as a Shareholder**

Shareholders will continue to hold their shares in Emefcy.

### **Cost synergies with the acquisition of RWL**

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

### **Support of Emefcy's major Shareholders**

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

### **Recommendation of Directors**

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

### **Alternative options**

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

## Disadvantages

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

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

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

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

### **Dilution**

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

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

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

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

### **Significant influence by RSL**

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

### **Change in operating activities**

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

### **Less attractive takeover target**

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

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<sup>30</sup> Converted at AUD/USD 0.76 and the basis for the calculation of the Consideration

<sup>31</sup> Based on premiums for control for recent transactions calculated by PPB. Refer Appendix F.

### **Diversification of management resources from core operations**

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

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

### **No alternatives**

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

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

### **RWL's liabilities**

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

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

### **Pricing of the Share Placement**

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

### **Risks associated with the Proposed Transactions**

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

## **11.5. Other factors**

If the Proposed Transactions are not approved:

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

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

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

<sup>33</sup> USD0.648 based on an exchange rate of AUD:USD of 0.76

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

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

### Alternatives

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

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

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

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

## 11.6. Any premium for control

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

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

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

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

## 11.7. Other considerations

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

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

## 11.8. Conclusion on the Proposed Transactions

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

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

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<sup>34</sup> Converted at AUD/USD 0.76 and the basis for the calculation of the Consideration

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

## 12. Limitations and disclosures

### 12.1. Qualifications

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

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

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

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

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

### 12.2. Disclaimers

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

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

### 12.3. Current market conditions

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

### 12.4. Currency

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

### 12.5. Independence

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

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

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

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

## 12.6. Consents

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

## 12.7. Reliance on information

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

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

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

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

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

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

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

Emefcy has agreed to indemnify PPB, including its related entities and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to PPB by Emefcy, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

## 12.8. Prospective financial information

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

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

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

We understand that the Prospective Financial Information will be based on assumptions concerning future events and market conditions and while prepared with due care and attention and the directors of Emefcy and RWL consider the assumptions to be reasonable, future events and conditions are not accurately predictable and the assumptions and outcomes are subject to significant uncertainties. Actual results are likely to vary from the Prospective Financial Information and any variation may be materially positive or negative. Accordingly, neither the Directors, Emefcy, nor PPB will guarantee that the Prospective Financial Information or any other prospective statement contained in the Report or otherwise relied upon will be achieved.

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

Set out below are some of the indicative factors that would support a conclusion that the Prospective Financial Information has a reasonable basis:

- a material portion of the Prospective Financial Information incorporates established trends in the businesses and current arrangements in place, for example:
  - Prospective Financial Information largely reflects an established history of operations, sales and profitability of the businesses; and/ or
  - Prospective Financial Information reflects contractual or other forms of written arrangements in place to establish some surety as to future revenues
- Prospective Financial Information is not based on business models that have yet to be proven and/or anticipated arrangements with customers, suppliers, or other parties that have yet to be confirmed
- the reporting and budgeting processes of Emefcy and RWL have been in place for some time and involve regular reporting of actual performance to budget variances, management follow up, input from senior management and that process itself is under continuous review
- Prospective Financial Information is based on detailed models that are designed to be driven by specific key inputs such as unit sales, unit price movements, etc
- Prospective Financial Information has been endorsed by the management and directors of Emefcy and RWL;
- Prospective Financial Information makes appropriate allowance for known contingencies.

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

- obtained details of the Prospective Financial Information and the process by which this information was prepared
- determined the composition of the Prospective Financial Information;
- discussions with management of Emefcy and RWL regarding the basis on which the Prospective Financial Information was formulated and where possible on a "desktop" level, undertaking evaluation of such information, by reference to past trading performance, available evidence and/or other documentation provided

- reviewed any assumed growth over historical earnings, determining the source of growth e.g. price, customer acquisition, customer volume purchase increase and investigate any new key contracts;
- enquired if the Prospective Financial Information is adopted by the directors of Emefcy and RWL;
- investigated previous forecasting history and experience;
- reviewed the most recently available monthly management accounts; and
- considered the relevant industry trends and the position of Emefcy and RWL within their respective industries.

## Appendices



## Appendix A. Glossary of terms

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

Abbreviation	Definition
IER or Report	This independent expert's report
IFRS	International financial reporting standards
k	Thousand
Licence	PPB's Australian Financial Services Licence (No. 344626)
Listing Rules	The official listing rules of ASX
LLC Interests	The limited liability company interests in RWL as described in the Sale and Purchase Agreement.
Lock-Up	The period during which shares in Emefcy issued pursuant to the SPA will be subject to escrow arrangements under the Lock-Up Agreement
Lock-Up Agreement	An agreement to be entered into between RSL and the Company restricting RSL from selling, transferring or otherwise disposing of any Consideration Shares for two years commencing on Completion (except in the specific circumstances described in the SPA or if there is a takeover bid or merger by way of a scheme of arrangement under the circumstances described in ASX Listing Rule 9.18).
Lock-Up Period	Under the Lock-Up Agreement, RSL will be restricted from selling, transferring or otherwise disposing of any Consideration shares for two years commencing from the completion date.
LOIs	Non-binding letters of intent
m	Million
MABR	Membrane Aerated Biofilm Reactors
Management	Management of Emefcy
Mr Lauder	Mr Ronald Lauder
NA	Net assets or net asset value
Non-Associated Shareholders	Shareholders of Emefcy that are not associated with the Proposed Transactions
NPAT	Net profit after tax
Option	An option to acquire a share in accordance with the terms and conditions determined at the time of the issue
PP&E	Property, plant and equipment
PPB	PPB Corporate Finance Pty Ltd
PPLA	Private Placement Letter Agreement
Pro forma Number of Shares	The pro forma number of fully diluted shares
Proposed Acquisition	Proposed Acquisition - to acquire the LLC Interests from RSL in consideration for which the Company will issue the Consideration Shares to RSL and pay a cash payment of USD10,000
Proposed Transactions	The transactions proposed by the Company requiring Shareholder approval: <ul style="list-style-type: none"> <li>• Proposed Acquisition</li> <li>• the Share Placement</li> </ul>
Prospective Financial Information	Prospective financial information for FY17 and FY18 in relation to Emefcy and RWL
RBA	Reserve Bank of Australia
Report or IER	This report
RG	ASIC Regulatory Guide
RG 111	ASIC Regulatory Guide 111 Content of expert's reports
RG 112	ASIC Regulatory Guide 111 Independence of experts
RG 74	ASIC Regulatory Guide 74 Acquisitions approved by members
RG 76	ASIC Regulatory Guide 76 Related party transactions

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

## Appendix B. List of sources of information

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

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

## Appendix C. Valuation methodologies

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

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

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

These approaches are summarised below:

### Market based approach

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

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

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

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

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

### Income based approach

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

- the businesses' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy
- earnings or cash flows are expected to fluctuate significantly from year to year
- the business or asset has a finite life
- the business is in a 'start up' or in early stages of development
- the business has irregular capital expenditure requirements
- the business involves infrastructure projects with major capital expenditure requirements
- the business is currently making losses but is expected to recover.

## Asset based approach

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

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

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

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

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

The net asset value of a trading will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

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

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

## Appendix D. Comparable trading company analysis

### Comparable international companies – earnings and multiples

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

Source: S&P Capital IQ and PPB analysis

Notes:

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

## Comparable company analysis – internationally listed company descriptions

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

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

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

## Appendix E. Comparable transaction company analysis

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

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

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

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

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

Source: S&P Capital IQ and PPB analysis

Notes:

1. Implied enterprise value represents the sum of the target's implied equity value (calculated using transaction value and stake) and debt, less cash
2. LTM = last twelve months; NTM = next twelve months; n/a = not available
3. Best Tractor Parts Pty Ltd. is a direct competitor to Emefcy and has been assessed as the most comparable transaction (highlighted in grey)

## Appendix F. Control premium analysis

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

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

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

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

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

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

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

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

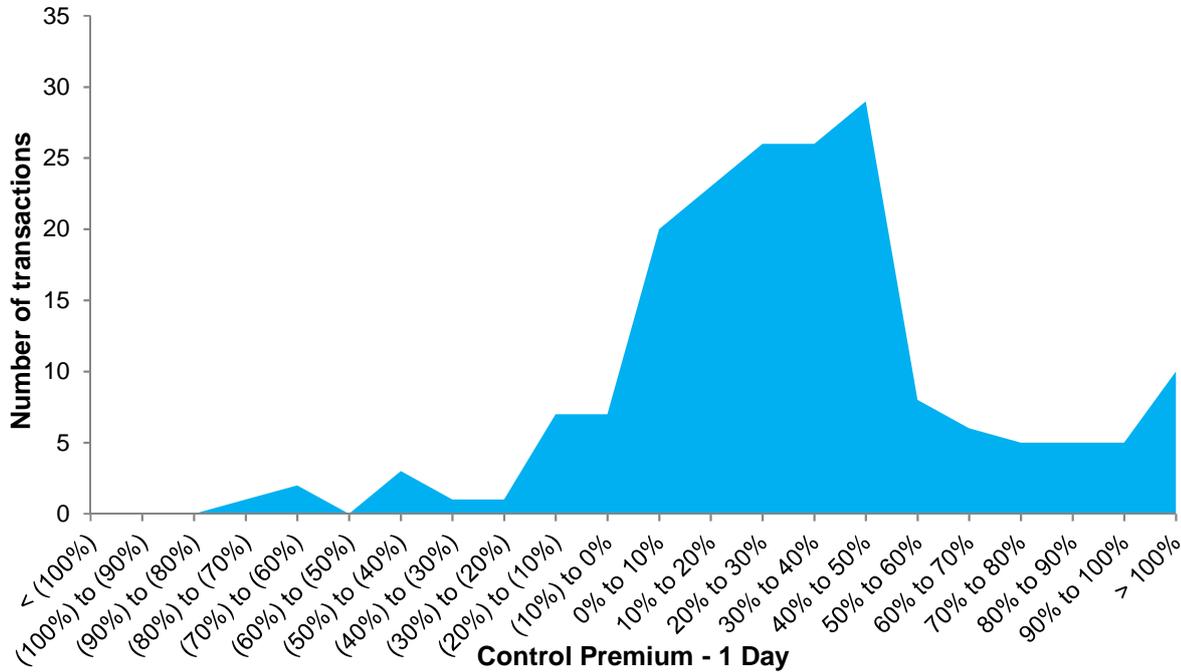
### Results of control premium study

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

Source: S&P Capital IQ

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

**Distribution of results of control premium study**



Source: S&P Capital IQ, PPB analysis

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

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

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

## Annexure B - Pro forma consolidated balance sheet as of 31 December 2016

### Consolidated balance sheet Pro Forma Information

as of 12/31/2016

US Dollars

	A	B	C	D
	Emefcy Group Limited (IFRS) (Audited) annual report-consolidated	RWL Water LLC (US GAAP) (Audited) annual report Consolidated	Adjustments	Consolidated balance sheet (IFRS) Pro-forma
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	22,870,848	10,867,809		33,738,657
Short term investment	-	50,952,155		50,952,155
Short term deposits	114,706	-		114,706
Customer deposit	-	960,065		960,065
Restricted cash	18,761	-		18,761
Trade and other receivables	712,609	6,757,761		7,470,370
Costs and estimated earnings in excess of billings on contracts-in-progress	-	5,992,757		5,992,757
Derivative	-	-	1,076,000	1,076,000
Inventories	452,454	4,348,014		4,800,468
Prepayments	205,023	6,796,294		7,001,317
<b>Total current assets</b>	<b>24,374,401</b>	<b>86,674,855</b>	<b>1,076,000</b>	<b>112,125,256</b>
<b>Non-current assets</b>				
Other receivables	49,373	5,699,103		5,748,476
property, plant and equipment	1,039,460	2,012,359		3,051,819
Goodwill and Intangible assets	2,133,548	6,479,240	58,040,717	66,653,505
<b>Total non-current assets</b>	<b>3,222,381</b>	<b>14,190,702</b>	<b>58,040,717</b>	<b>75,453,800</b>
<b>Total assets</b>	<b>27,596,782</b>	<b>100,865,557</b>	<b>59,116,717</b>	<b>187,579,056</b>

	A	B	C	D
	Emefcy Group Limited (IFRS) (Audited) annual report-consolidated	RWL Water LLC (US GAAP) (Audited) annual report Consolidated	Adjustments	Consolidated balance sheet (IFRS) Pro-forma
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	1,371,331	9,400,216	3,000,000	13,771,547
Billings in excess of costs and estimated earnings on contracts-in-progress	-	819,649		819,649
Short term borrowings and current maturities of long term debt	-	1,217,694		1,217,694
Deferred revenue	-	36,104,019		36,104,019
Provisions	123,113	38,019,596		38,142,709
Other financial liabilities	1,000,000	384,109	3,842,011	5,226,120
<b>Total current liabilities</b>	<b>2,494,444</b>	<b>85,945,283</b>	<b>6,842,011</b>	<b>95,281,738</b>
<b>Non-current liabilities</b>				
Other payables	1,038,689	2,236,948	(1,582,885)	1,692,752
Notes payable to related parties	-	482,076		482,076
Deferred taxes	-	900,935		900,935
<b>Total non-current liabilities</b>	<b>1,038,689</b>	<b>3,619,959</b>	<b>1,582,885</b>	<b>3,075,763</b>
<b>Total liabilities</b>	<b>3,533,133</b>	<b>89,565,242</b>	<b>5,259,126</b>	<b>98,357,501</b>
<b>EQUITY</b>	<b>24,063,649</b>	<b>11,300,315</b>	<b>53,857,591</b>	<b>89,221,555</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>27,596,782</b>	<b>100,865,557</b>	<b>59,116,717</b>	<b>187,579,056</b>

***Procedures Performed and Assumptions Used:***

The December 31, 2016 consolidated balance sheet pro-forma is based on the combined balance sheets of Emefcy, audited and accounted in accordance with IFRS (Column A) and RWL, audited and accounted in accordance with US GAAP (Column B), as if the merger by the acquisition of RWL closed as of that date. No changes were made to any of these balance sheets except presenting all equity components in a single Financial Statement Line Item (FSLI).

Since the Emefcy accounts are audited and accounted in accordance with IFRS and the RWL accounts are audited and accounted in accordance with US GAAP, Emefcy used an experienced external consultant to support preparation of the adjustments to the RWL accounts for IFRS (Column B) and on consolidation (Column C).

The accounting for the PDVSA contract treated the ARS/Dollar exchange rate from a \$95 million deposit as an integral component of the project economics. The experienced external consultant supporting the IFRS adjustment procedure suggested an alternative accounting treatments but that alternative treatment was ultimately dismissed after extensive discussion between management, auditors and the experienced external consultant. Depending on the future assessment by the Company's auditors that alternative approach could possibly be accepted but any change would not impact the underlying merits of the project's economic value.

In preparing the adjustments to IFRS, Emefcy used the following procedures and assumptions which have been agreed to by RWL's corporate finance team. No verification was made by the experienced external consultant to any underlying data used.

- 1) The procedures performed did not include any auditing or review procedures, in accordance with auditing or review standards, respectively; if such additional procedures were performed, other matters, with potential significant impact on the Pro Forma Information, might be identified.
- 2) The identified potential material GAAP differences, detailed below, does not represent a full list of IFRS vs US GAAP differences, as might be identified upon a complete conversion of RWL's financial statement to IFRS.
- 3) A materiality threshold of \$1.8 million was used (per FSLI). Such threshold was based on approximately 3% of RWL's 2016 revenues. All identified differences below \$1.8 million are not reflected in the consolidated balance sheet pro-forma.
- 4) RWL's FSLIs, post the adjustments in Column C, are presented at their book values, as no Purchase Price Allocation was performed. As such, the December 31, 2016 consolidated balance sheet pro-forma (Column D) does not include any Fair Value mark ups, nor any potential additional intangible assets, which might have been identified as part of such Purchase Price Allocation.
- 5) The additional shares to be issued by Emefcy as part of this transaction was valued based on Emefcy's share price at December 31, 2016 of \$0.66 per share. The number of such additional shares which is included in Pro Forma Information is 100.5 million.
- 6) The Pro Forma Information does not include any potential adjustments for tax implications which might result from the Proposed Transactions.
- 7) The Pro Forma Information does not include any adjustments for potential differences in accounting policies accounted by RWL and Emefcy.
- 8) The Pro Forma information does not include the proposed placement of US\$20 million to the Seller, which is subject to shareholders approval

The "Adjustments" column (Column C) includes the following types of adjustments:

- 1) US GAAP vs. IFRS differences identified with regard to the Call and PUT options related to the purchase of the minority interests, as part of the acquisitions by RWL of RWL Argentina and RWL Italy.
- 2) Estimated merger by the acquisition of RWL related and share issuance costs.
- 3) Conversion of certain liabilities which will be satisfied by the Owner of RWL into equity in RWL.
- 4) Since no Purchase Price Allocation was performed, any difference between the RWL's book values and the consideration related to new shares which are to be issued, was included in the Goodwill FSLI.

## Annexure C - Potential termination benefits to Mr Henry Charrabé

Under the proposed terms of the CEO Employment Agreement, different termination benefits apply under different circumstances. The table below sets out the different types of benefits that Mr Charrabé will receive following different types of employment termination events.

The Severance Period referred to in the table below means, if terminated during the initial two year term of his employment, the period from his termination through the remainder of the term plus 12 months, and, if terminated after the end of the initial two year term, the 12 month period following termination.

<b>Description of benefit</b>	<b>Termination for Cause<sup>11</sup></b>	<b>Termination with Good Reason<sup>12</sup></b>	<b>Termination without Cause or as a result of death or disability</b>	<b>Resignation without Good Reason</b>
<b>Health insurance plan and other health and welfare benefits</b>	Payable only to termination date	Will continue to receive for the Severance Period	Will continue to receive for the Severance Period	Payable for one year after resignation if he complies with his non-competition obligation during this period
<b>\$170,000 annual housing allowance</b>	Payable only to termination date	Same as above	Same as above	Payable only to termination date

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<sup>11</sup> **Cause** means the occurrence of any of the following:

- (a) a material breach by Mr Charrabé of the CEO Employment Agreement or of any other agreement of which Mr Charrabé and the Company or its Related Bodies Corporate are parties;
- (b) the repeated and persistent failure by Mr Charrabé to reasonably and substantially perform his duties under the CEO Employment Agreement;
- (c) wilful misconduct or gross negligence that is injurious to the Company;
- (d) Mr Charrabé's breach of his fiduciary duty to the Company or commission of a fraud upon the Company;
- (e) Mr Charrabé's conviction of (or plea of *nolo contendere* to) any crime that constitutes a felony, or that constitutes any misdemeanour (excluding minor traffic violations) involving moral turpitude, deceit, dishonesty or fraud; or
- (f) dishonest or fraudulent statements or acts of Mr Charrabé to any member of the Company's Related Bodies Corporate.

<sup>12</sup> **Good Reason** means the occurrence of any of the following without Mr Charrabé's written consent:

- (a) a reduction in his base salary or Year-End Bonus;
- (b) non-payment of the Sign-On Bonus or the 2017 Guaranteed Minimum Bonus;
- (c) a material adverse change in the scope or nature of Mr Charrabé's duties, responsibilities or authority (including but not limited to Mr Charrabé no longer being a member of the Board or the most senior executive of the Company other than the chair of the Board);
- (d) Mr Charrabé no longer reporting directly to the Board;
- (e) a material change to the geographic location at which Mr Charrabé provides services hereunder; or
- (f) a material breach of the CEO Employment Agreement by the Company.

<b>US\$600,000 base salary</b>	Payable only to termination date	Same as above	Same as above	Payable for one year after resignation if he complies with his non-competition obligation during this period
<b>US\$150,000 December 2017 sign-on bonus</b>	No entitlement	Not paid if terminated before 31 December 2017	If terminated during 2017, will be paid in full	Not paid if resign before 31 December 2017
<b>US\$150,000 December 2017 guaranteed minimum bonus</b>	No entitlement	Not paid if terminated before 31 December 2017	If terminated during 2017, will be paid in full	Not paid if resign before 31 December 2017
<b>US\$300,000 year-end bonus commencing in 2018</b>	No entitlement	If terminated in 2018 or later, will receive a pro-rated bonus based on the part of the year that he was employed	If terminated in 2018 or later, will receive a pro-rated bonus based on the part of the year that he was employed	No entitlement
<b>Annual discretionary bonus (US\$75,000 target amount)</b>	No entitlement	If terminated in 2018 or later, will receive a pro-rated bonus based on the applicable performance metrics	If terminated in 2018 or later, will receive a pro-rated bonus based on the applicable performance metrics	No entitlement
<b>11,191,336 options, half vesting every 3 months over 4 years, the other half vesting in annual instalments over 4 years based on achieving performance criteria<sup>13</sup></b>	All unvested options will lapse on termination of employment	The options that would have vested during the Severance Period will vest at termination, and performance criteria won't apply	If death or disability, all unvested options immediately vest; if termination without Cause, the options that would have vested during the Severance Period will vest at termination; in each case, performance criteria won't apply	All unvested options will lapse on termination of employment

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<sup>13</sup> All options, whether vested or unvested, will lapse 60 days after termination of employment.

## Annexure D - Potential Termination Benefits to Astaris SAS

Under the proposed terms of the Astaris Consulting Agreement, different termination benefits apply under different circumstances. The table below sets out the different types of benefits that Astaris SAS (**Consultant**) will receive following different types of consultation termination events.

The Severance Period referred to in the table below means, if terminated during the initial two year term of the engagement, the period from the termination through the remainder of the term plus 6 months, and, if terminated after the end of the initial two year term, the 6 month period following termination.

<i>Description of benefit</i>	<i>Termination for Cause<sup>14</sup></i>	<i>Termination without Cause or due to a Material Breach<sup>15</sup></i>	<i>Termination by reason of Philippe Laval's death or disability</i>	<i>Terminated by the Consultant other than for a Material Breach</i>
<b>US\$350,000 Annual Consulting Fee</b>	Any accrued and unpaid Annual Consulting Fees to the termination date.	<ul style="list-style-type: none"> <li>■ Annual Consulting Fees accrued and unpaid to the termination date, and for the Severance Period at the rate in effect immediately prior to the termination date.</li> </ul>	Any accrued and unpaid Annual Consulting Fees to the termination date.	Any accrued and unpaid Annual Consulting Fees to the termination date.
<b>US\$100,000 Annual Bonus</b>	Payable only if earned but unpaid as of the termination date.	Annual Bonuses earned but unpaid as of the termination date, and a pro-rated	Payable only if earned but unpaid as of the termination date.	Payable only if earned but unpaid as of the termination date.

<sup>14</sup> **Cause** means the occurrence of any of the following:

- (g) any dishonest or fraudulent statements or acts by the Consultant with respect to any member of the Company group;
- (h) wilful misconduct or gross negligence that is injurious to RWL Water LLC or any member of the Company group;
- (i) any act of moral turpitude by the Consultant that has a material adverse impact on the activities or reputation of RWL Water LLC, any member of the Company group, or their officers or directors, as determined in the reasonable judgment of the CEO;
- (j) the conviction of, or entry of a plea of no contest by, the Consultant or Philippe Laval for any felony or any misdemeanour (excluding minor traffic violations) involving moral turpitude, deceit, dishonesty or fraud; and
- (k) a material breach by the Consultant of Astaris Consulting Agreement or the Confidentiality Agreement entered into between Philippe Laval and RWL Water LLC, that RWL Water LLC has advised the Consultant of and the Consultant has not cured within 30 days of receipt of such notification.

<sup>15</sup> The Consultant shall have the right to terminate the consulting relationship in the event of a Material Breach. **Material Breach** means the occurrence of any of the following actions:

- (g) requiring the Consultant to relocate to any location without the Consultant's express written consent;
- (h) any reduction in either the Annual Consulting Fee or the Annual Bonus; or
- (i) requiring the Consultant to travel in connection with the performance of his duties more than 70 percent of the total time spent (on an annual basis) by the Consultant in providing the services under the Astaris Consulting Agreement (assuming that the Consultant provides services on a full time basis).

		bonus based on the part of the year elapsed to the termination date.		
<b>Discretionary Bonus, at the discretion of the CEO based on performance metrics (no target amount)</b>	Earned but unpaid as of the termination date.	Discretionary Bonuses earned but unpaid as of the termination date, and a pro-rated bonus based on the part of the year elapsed to the termination date based on the applicable performance metrics that have been met to the termination date.	Earned but unpaid as of the termination date.	Earned but unpaid as of the termination date.
<b>1,500,000 options, half vesting every 3 months over 4 years, the other half vesting in annual instalments over 4 years based on achieving performance criteria<sup>16</sup></b>	All unvested options will lapse on termination of employment.	The options that would have vested during the Severance Period will vest at termination, and performance criteria won't apply	All unvested options immediately vest.	All unvested options will lapse on termination of engagement.

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<sup>16</sup> All Options (whether vested or unvested) will lapse 60 days after any termination of the consulting relationship, unless determined otherwise by the board of directors of Emefcy.

## **Annexure E - Terms of ESOP**

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## ESOP TERMS

The Directors are empowered to operate the ESOP in accordance with the Listing Rules and on the following terms and conditions:

- (a) Subject to paragraph (d), the Directors may offer to issue Options to eligible employees and other such persons that the Directors see fit (excluding directors), the ESOP and in such manner and on such terms and conditions as they in their absolute discretion determine.
- (b) If the Company has offered you Options, to accept the offer complete the Acceptance Form or accept in such other form as the Directors may in their absolute discretion approve from time to time.
- (c) The Eligible Employees to participate in the ESOP shall be as the Directors in their absolute discretion determine and shall take into account skills, experience, length of service with the Company, remuneration level and such other criteria as the Directors consider appropriate in the circumstances.
- (d) Options may not be offered under this ESOP without the issue of a prospectus in accordance with Chapter 6D of the Corporations Act, if the aggregate of:
- (i) the number of Options to be issued;
  - (ii) the number of Shares which would be issued if all the current Options issued under any employment incentive scheme were exercised;
  - (iii) the number of Shares which have been issued as a result of the exercise of Options issued under any employee incentive scheme, where the Options were issued during the preceding three years; and
  - (iv) all other Shares issued pursuant to any employee incentive scheme during the preceding three years;
- but disregarding any offer made, Options or Shares issued by way of or as a result of:
- (v) an offer to a person situated at the time of receipt of the offer outside Australia;
  - (vi) an offer that was an excluded offer or invitation within the meaning of the Corporations Act as it stood prior to the commencement of Schedule 1 of the Corporate Law Economic Reform Program Act 1999;
  - (vii) an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
  - (viii) an offer under a disclosure document,
- would exceed 5% of the then current number of Shares on issue.
- (e) Options will be issued free of charge to eligible employees. The exercise price of the Options shall be as the Directors in their absolute discretion determine, provided that it shall not be less than that amount which is equal to 80% of the average market price of the Shares in the 5 days in which sales in the Shares were recorded immediately preceding the day on which the Directors resolve to offer the Options.
- (f) The Directors may limit the total number of Options which may be exercised under the Scheme in any year.
- (g) The Directors, in their absolute discretion, having regard to skills, experience, length of service with the Company, remuneration level and such other criteria as the Directors consider appropriate in the

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circumstances, shall determine criteria to establish the periods during which the Options may be exercised or will vest.

- (h) Unless the Directors in their absolute discretion determine otherwise, Options shall lapse upon the earlier of:
  - (i) the expiry of the exercise date;
  - (ii) the expiry of 60 days after the Option holder ceases to be an Eligible Employee by reason of dismissal, resignation or termination of employment, office or services for any reason;
  - (iii) the expiry of 60 days after the Option holder ceases to be an Eligible Employee by reason of retirement; or
  - (iv) a determination by the Directors acting reasonably that the Option holder has acted fraudulently, dishonestly or in breach of his or her obligations to the Company or an Associated Body Corporate;
- (i) If an Eligible Employee accepts an offer from the Company to participate in the Scheme then the Company will evidence the issue of an Option to an eligible employee by issuing that eligible employee a Certificate for that Option.
- (j) Each Option entitles the holder to subscribe for and be issued with one Share.
- (k) Shares issued pursuant to the exercise of Options will in all respects, including bonus issues and new issues, rank equally and carry the same rights and entitlements as other Shares on issue.
- (l) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue is announced (or such shorter time as permitted under the ASX Listing Rules). This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (m) The Options will not be quoted on the ASX. However, application will be made to the ASX for official quotation of the Shares issued on the exercise of the Options if the Shares are listed on the ASX at that time.
- (n) An application to be issued Options may be made by eligible employees invited to participate in the Scheme in such form and on such terms and conditions concerning the closing date for applications as the Directors in their absolute discretion determine.
- (o) If at any time the issued capital of the Company is reconstructed, all rights of Option holders are to be changed in a manner consistent with the Listing Rules.
- (p) At the absolute discretion of the Directors, the terms upon which Options will be issued may incorporate performance related factors. Such factors may reflect, inter alia, profitability levels and sales targets and may, subject to clause (o) above, be amended from time to time in a manner favourable to the Option holder. However such performance related factors, if included in the Option terms or so amended shall not act in any way to constitute a breach of the Terms and Conditions.
- (q) Notwithstanding the Terms and Conditions, upon the occurrence of a Trigger Event the Directors may determine:
  - (i) that the Options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors acting bona fide so as to permit the holder to participate in any change of control arising from a Trigger Event provided that the Directors will

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forthwith advise in writing each holder of such determination. Thereafter, the Options shall lapse to the extent they have not been exercised; or

- (ii) to use their reasonable endeavours to procure that an offer is made to holders of Options on like terms (having regard to the nature and value of the Options) to the terms proposed under the Trigger Event in which case the Directors shall determine an appropriate period during which the holder may elect to accept the offer and, if the holder has not so elected at the end of that period, the Options shall immediately become exercisable and if not exercised within 10 days, shall lapse.
- (r) An Option may not be transferred or assigned except that a legal personal representative of a holder of an Option who has died or whose estate is liable to be dealt with under laws relating to mental health will be entitled to be registered as the holder of that Option after the production to the Directors of such documents or other evidence as the Directors may reasonably require to establish that entitlement.
- (s) An Option is exercisable by the holder lodging with the Company a Notice of Exercise of Option together with a cheque for the exercise price of each Option to be exercised and the relevant Option Certificate. If not all of the holder's Options are being exercised, a holder must exercise Options in multiples of 1,000.
- (t) Neither participation in the Scheme by the Company or an Associated Body Corporate or any Eligible Employees or Option holders or anything contained in these Terms and Conditions shall in any way prejudice or affect the right of the Company or an Associated Body Corporate to dismiss any Eligible Employees or Option holder or to vary the terms of employment of any Eligible Employees or Option holder. Nor shall participation or the rights or benefits of an Eligible Employees or Option holder under the Terms and Conditions be relevant to or be used as grounds for granting or increasing damages in any action brought by an Eligible Employees or Option holder against the Company or an Associated Body Corporate whether in respect of any alleged wrongful dismissal or otherwise.
- (u) At all times during which eligible employees may subscribe for or purchase Shares upon exercise of an Option issued pursuant to the ESOP, the Company shall provide, within a reasonable period of a request by eligible employees, the current market price of the Shares. Contact the Company Secretary to obtain this information.
- (v) The ESOP shall be administered by the Directors who shall have power to:
  - (i) determine appropriate procedures for administration of the ESOP consistent with these Terms and Conditions;
  - (ii) resolve conclusively all questions of fact or interpretation or dispute in connection with the ESOP and settle as the Directors in their absolute discretion determine expedient any difficulties or anomalies howsoever arising with or by reason of the operation of the ESOP;
  - (iii) delegate to any one or more persons for such period and on such conditions as it may determine the exercise of any of the Directors' powers or discretions arising under the ESOP.
- (w) In addition to the terms set out above, the terms set out in Appendix A shall apply to an Israeli resident participants in the ESOP.

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**APPENDIX A  
TO ESOP**

**1. Special Provisions for Persons who are Israeli Taxpayers**

- 1.1 This Appendix (the "**Appendix**") to the Savcor Group Limited ESOP is made and entered effective as of the date that shareholders adopt the ESOP and the provisions specified hereunder shall form an integral part of the Scheme.
- 1.2 The provisions specified hereunder apply only to persons who are subject to taxation by the State of Israel with respect to an Award.
- 1.3 This Appendix applies with respect to the Awards under the Scheme. The purpose of this Appendix is to establish certain rules and limitations applicable to the Award that may be granted under the Scheme to Eligible Employees from time to time, in compliance with the securities and other applicable laws currently in force in the State of Israel. Except as otherwise provided by this Appendix, all grants made pursuant to this Appendix shall be governed by the terms of the Scheme. This Appendix is applicable only to grants made after the Effective Date. This Appendix complies with, and is subject to the ITO (as defined below) and Section 102 (as defined below).
- 1.4 The Scheme and this Appendix shall be read together.

**2. Definitions.**

Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Scheme. The following additional definitions will apply to grants made pursuant to this Appendix:

"**Award**" shall include, for the avoidance of doubt, an Option granted under the Scheme.

"**3(i) Award**" means an award (including an Option granted under the Scheme) that is subject to taxation pursuant to Section 3(i) of the ITO which has been granted to any person who is not an Eligible 102 Participant.

"**102 Capital Gains Track**" means the tax track set forth in Section 102(b)(2) or Section 102(b)(3) of the ITO, as the case may be.

"**102 Capital Gains Track Grant**" means a 102 Trustee Grant qualifying for the special tax treatment under the 102 Capital Gains Track.

"**102 Earned Income Track**" means the tax track set forth in Section 102(b)(1) of the ITO.

"**102 Earned Income Track Grant**" means a 102 Trustee Grant qualifying for the ordinary income tax treatment under the 102 Earned Income Track.

"**102 Trustee Grant**" means an award granted pursuant to Section 102(b) of the ITO and held in trust by a Trustee for the benefit of the Eligible 102 Participant, and includes 102 Capital Gains Track Grants or 102 Earned Income Track Grants.

"**Affiliate**" means any affiliate that is an "employing company" within the meaning of Section 102(a) of the ITO.

"**Controlling Shareholder**" as defined under Section 32(9) of the ITO.

"**Election**" means the Company's election of the type (i.e., between 102 Capital Gains Track or 102 Earned Income Track) of 102 Trustee Grants that it will make under the Scheme, as filed with the ITA.

"**Eligible 102 Participant**" means an individual employed by an Israeli resident Affiliate or an individual who is serving as a director of an Israeli resident Affiliate, who is not a Controlling Shareholder.

"**ITA**" means the Israeli Tax Authority.

"**ITO**" or the "**Ordinance**" means the Israeli Income Tax Ordinance (New Version), 5721-1961 and the rules, regulations, orders or procedures promulgated thereunder and any amendments thereto, including specifically the ITO Rules, all as may be amended from time to time.

"**ITO Rules**" means the Income Tax Rules (Tax Benefits in Share Issuance to Employees), 5763-2003.

"**Non-Trustee Grant**" means an award granted to an Eligible 102 Participant pursuant to Section 102(c) of the ITO.

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**"Required Holding Period"** means the requisite period prescribed by Section 102 and the ITO Rules, or such other period as may be required by the ITA, with respect to 102 Trustee Grants, during which award granted by the Company and the Share issued upon the exercise or vesting of the award must be held by the Trustee for the benefit of the person to whom it was granted. As of the Effective Date, the Required Holding Period for 102 Capital Gains Track Grants is 24 months from the date the award is granted, provided that all the conditions set forth in Section 102 and related regulations have been fulfilled.

**"Section 102"** means the provisions of Section 102 of the ITO, as amended from time to time.

**"Trustee"** means a person or entity designated by the Directors to serve as a trustee and/or supervising trustee and approved by the ITA in accordance with the provisions of Section 102(a) of the ITO.

**"Trust Agreement"** means the agreement(s) between the Company and the Trustee regarding award granted under this Appendix, as in effect from time to time.

### **3. Types of Grants and Section 102 Election.**

- 3.1. Grants of Awards made pursuant to Section 102, shall be made pursuant to either (a) Section 102(b)(2) or Section 102(b)(3) of the ITO as the case may be, as 102 Capital Gains Track Grants, or (b) Section 102(b)(1) of the ITO as 102 Earned Income Track Grants. The Company's Election regarding the type of 102 Trustee Grant it elects to make shall be filed with the ITA before any grant is made pursuant to such Election in accordance with Section 102. Once the Company has filed such Election, it may change the type of 102 Trustee Grant that it elects to make only after the lapse of at least 12 months from the end of the calendar year in which the first grant was made pursuant to the previous Election, in accordance with Section 102. For the avoidance of doubt, such Election shall not prevent the Company from granting Non-Trustee Grants to Eligible 102 Participants at any time.
- 3.2. Eligible 102 Participants may receive only 102 Trustee Grants or Non-Trustee Grants under this Appendix. Eligible Employees who are not Eligible 102 Participants may be granted only 3(i) Awards under this Appendix.
- 3.3. No 102 Trustee Grants may be made effective pursuant to this Appendix until 30 days after the requisite filings required by the ITO and the ITO Rules have been filed with the ITA.
- 3.4. The Award agreement or documents evidencing the Award granted or option issued pursuant to the Scheme and this Appendix shall indicate whether the grant is a 102 Trustee Grant, a Non-Trustee Grant or a 3(i) Grant; and, if the grant is a 102 Trustee Grant, whether it is a 102 Capital Gains Track Grant or a 102 Earned Income Track Grant, the vesting provisions and the exercise price.

### **4. Terms And Conditions of 102 Trustee Grants.**

- 4.1. Each 102 Trustee Grant will be deemed granted on the date stated in the applicable Directors' resolution, in accordance with the provisions of Section 102 and the Trust Agreement.
- 4.2. Each 102 Trustee Grant granted to an Eligible 102 Participant shall be held by the Trustee and each certificate for Shares acquired pursuant to a 102 Trustee Grant shall be issued to and registered in the name of a Trustee and shall be held in trust for the benefit of the Eligible 102 Participant for the Required Holding Period. After termination of the Required Holding Period, the Trustee may release such award and any such Share, provided that (i) the Trustee has received an acknowledgment from the ITA that the Eligible 102 Participant has paid any applicable tax due pursuant to the ITO; or (ii) the Trustee and/or the Company withhold any applicable tax due pursuant to the ITO. The Trustee shall not release any 102 Award or Share issued thereunder and held by it prior to the full payment of the Eligible 102 Participant's tax liabilities.
- 4.3. Each 102 Trustee Grant (whether a 102 Capital Gains Track Grant or a 102 Earned Income Track Grant, as applicable) shall be subject to the relevant terms of Section 102 and the ITO, which shall be deemed an integral part of the 102 Trustee Grant and shall prevail over any term contained in the Scheme, this Appendix or any Award agreement that is not consistent therewith. Any provision of the ITO and any approvals by the ITA not expressly specified in this Appendix or any document evidencing a grant that are necessary to receive or maintain any tax benefit pursuant to Section 102 shall be binding on the Eligible 102 Participant. The Trustee and the Eligible 102 Participant granted a 102 Trustee Grant shall comply with the ITO, and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee. For avoidance of

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doubt, it is reiterated that compliance with the ITO specifically includes compliance with the ITO Rules. Further, the Eligible 102 Participant agrees to execute any and all documents which the Company or the Trustee may reasonably determine to be necessary in order to comply with the provision of any applicable law, and, particularly, Section 102.

- 4.4. During the Required Holding Period, the Eligible 102 Participant shall not require the Trustee to release or sell the Award or Share and other share received subsequently following any realization of rights derived from Award or Share (including stock dividends) to the Eligible 102 Participant or to a third party, unless permitted to do so by applicable law. Notwithstanding the foregoing, the Trustee may, pursuant to a written request and subject to applicable law, release and transfer such Share to a designated third party, provided that both of the following conditions have been fulfilled prior to such transfer: (i) all taxes required to be paid upon the release and transfer of the Share have been withheld for transfer to the ITA; and (ii) the Trustee has received written confirmation from the Company that all requirements for such release and transfer have been fulfilled according to the terms of the Company's corporate documents, the Scheme, this Appendix, any applicable agreement and any applicable law. To avoid doubt, such sale or release during the Required Holding Period will result in different tax ramifications to the Eligible 102 Participant under Section 102 of the ITO and the ITO Rules and/or any other regulations or orders or procedures promulgated thereunder, which shall apply to and shall be borne solely by such Eligible 102 Participant.
- 4.5. In the event a stock dividend is declared and/or additional rights are granted with respect to Shares which were issued upon an exercise or vesting of an Award granted as 102 Trustee Grants, such dividend and/or rights shall also be subject to the provisions of this Section 4 and the Required Holding Period for such stock dividend and/or rights shall be measured from the commencement of the Required Holding Period for the Award with respect to which the dividend was declared and/or rights granted. In the event of a cash dividend on Award or a Share, the Trustee shall deduct all taxes and mandatory payments from the dividend proceeds in compliance with applicable withholding requirements before transferring the dividend proceeds to the Eligible 102 Participant.
- 4.6. If an Award which is granted as a 102 Trustee Grant is exercised or vests during the Required Holding Period, the Share issued upon such exercise or vesting shall be issued in the name of the Trustee for the benefit of the Eligible 102 Participant. If such Share is issued after the Required Holding Period has lapsed, the Shares issued upon such exercise or vesting shall, at the election of the Eligible 102 Participant, either (i) be issued in the name of the Trustee, or (ii) be transferred to the Eligible 102 Participant directly, provided that the Eligible 102 Participant first complies with all applicable provisions of the Scheme, this Appendix and Section 102 and pays all taxes which apply on the Shares or to such transfer of Share.
- 4.7. To avoid doubt, notwithstanding anything to the contrary in the Scheme, this Appendix and/or any Award agreement, no grant qualifying as a 102 Trustee Grant shall be substituted for payment in cash or any other form of consideration, including an Award or Share, in the absence of an explicit approval of the ITA in advance for such substitution.
- 4.8. Upon receipt of 102 Trustee Grant, the Eligible 102 Participant will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with this Appendix, or any 102 Trustee Grant Share granted to him thereunder.

## 5. Exercise Of Awards

- 5.1. Awards shall be exercised by the Eligible 102 Participant by giving a written notice to the Company and/or to any third party designated by the Directors (the "Representative"), in such form and method as may be determined by the Directors and, when applicable, by the Trustee, in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the Company and/or the Representative and the payment of the exercise price for the number of Shares with respect to which the option is being exercised, at the Company's or the Representative's principal office. The notice shall specify the number of Shares with respect to which the option is being exercised.

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**6. Assignability.**

- 6.1. As long as Award or Share are held by the Trustee on behalf of the Eligible 102 Participant, all rights of the Eligible 102 Participant over the Award or Share are personal, can not be transferred, assigned, pledged or mortgaged (each a "Transfer"), other than by will or laws of descent or as specifically otherwise allowed under the Scheme, and during the lifetime of the Eligible 102 Participant each and all of such Eligible 102 Participant's rights to purchase Shares hereunder shall be exercisable only by the Eligible 102 Participant.
- 6.2. Any such Transfer made directly or indirectly, for immediate or future effect, shall be void.

**7. Tax Consequences.**

- 7.1. Any tax consequences arising from the grant or exercise or vesting of any Award, from the payment for Shares covered thereby, or from any other event or act (of the Company, and/or its Affiliates, and the Trustee or the Eligible Employee), hereunder, shall be borne solely by the Eligible Employee. The Company and/or its Affiliates, and/or the Trustee shall be entitled to withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Eligible Employee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Eligible Employee. The Company or any of its Affiliates and the Trustee may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all taxes required by law to be withheld with respect to Award granted under the Scheme and this Appendix and the exercise or vesting or sale thereof, including, but not limited, to (i) deducting the amount so required to be withheld from any other amount then or thereafter payable to an Eligible Employee, and/or (ii) requiring an Eligible Employee to pay to the Company or any of its Affiliates the amount so required to be withheld as a condition of the issuance, delivery, distribution or release of any Share, and/or (iii) by causing the exercise of an Award and/or the sale of Share held by or on behalf of an Eligible Employee to cover such liability, up to the amount required to satisfy minimum statutory withholding requirements. In addition, the Eligible Employees will be required to pay any amount which exceeds the tax to be withheld and remitted to the tax authorities, pursuant to applicable tax laws, regulations and rules.
- 7.2. With respect to Non-Trustee Grants, if the Eligible 102 Participant ceases to be employed by the Company or any Affiliate, the Eligible 102 Participant shall extend to the Company and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Share to the satisfaction of the Company, all in accordance with the provisions of Section 102 of the ITO and the ITO Rules.

**8. Governing Law and Jurisdiction.**

The Scheme and all Awards (including, without limitation, Options) granted thereunder are governed by the laws of the State of Victoria, Australia, excluding the principles of conflicts of laws thereof; provided, however, that all aspects of an Award which relate to Section 102 of the Ordinance, the rules and regulations promulgated thereunder, the Israeli Appendix, the Trust Agreement and/or Section 3(l) of the Ordinance, shall be governed by and interpreted in accordance with the laws of the State of Israel, without giving effect to the principles of the conflicts of laws thereof. All Options and Shares shall be subject to the laws and requirements of the State of Israel and the terms and conditions on which an Option is granted are deemed modified to the extent necessary or advisable to comply with the applicable Israeli laws provided however that in the event of any inconsistency with the ASX Listing Rules or the Corporations Act the provisions of those Australian laws or rules shall apply.

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## Definitions - ESOP

In this Schedule the following terms shall bear the following meanings:

**"Acceptance Form"** means the Acceptance Form which will accompany the invitation to the Eligible Employee to participate in the Scheme.

**"Associated Body Corporate"** means:

- (i) a related body corporate (as defined in the Corporations Act) of the Company;
- (ii) a body corporate which has an entitlement to not less than 20% of the voting shares of the Company; and
- (iii) a body corporate in which the Company has an entitlement to not less than 20% of the voting shares.

**"ASX"** means the Australian Securities Exchange Limited.

**"Business Day"** means those days other than a Saturday, Sunday, New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Christmas Day, Boxing Day and any other day which the ASX shall declare and publish is not a business day.

**"Certificate"** means a certificate for any Option issued to Eligible Employees which will include all of the terms and conditions of the Option and the Notice of Exercise of Option or such other evidence of ownership that the Directors may in their absolute discretion determine from time to time.

**"Company"** means Savcor Group Limited.

**"Company Group"** means the Company and its Associated Bodies Corporate.

**"Corporations Act"** means the Corporations Act 2001 (Commonwealth).

**"Directors"** mean the directors from time to time of the Company.

**"Eligible Employees"** means any full or part time employees, consultants of the Company or its Associated Bodies Corporate, or other such persons that the Directors see fit, excluding Directors (unless separate shareholder approval is obtained).

**"Listing Rules"** means the official listing rules of ASX as amended from time to time.

**"Notice of Exercise of Option"** means the Notice of Exercise of Option which will accompany the invitation to the Eligible Employee to participate in the Scheme.

**"Offer Period"** means the period referred to in the definition of that expression in Section 624 of the Corporations Act, provided that where a takeover bid is publicly announced prior to the service of an off-market bidder's statement on the Company in relation to that takeover bid the Offer Period shall be deemed to have commenced at the time of that announcement.

**"Option"** means an option to acquire a Share issued in accordance with the Scheme.

**"Scheme"** means the Savcor Employee Option Scheme in which Eligible Employees may be invited to participate in accordance with the Terms and Conditions.

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

**"Terms and Conditions"** means the terms and conditions as amended from time to time.

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**"Trigger Event" means:**

- (i) the despatch of a notice of meeting to consider a scheme of arrangement between the Company and its creditors or members or any class thereof pursuant to section 411 of the Corporations Act;
- (ii) the service of a bidder's statement or a like document on the Company; or
- (iii) the date upon which a person or a group of associated person becomes entitled, subsequent to the date of issue of the Option, to sufficient Shares to give it or them the ability, in general meeting to replace all, or allow a majority, of Directors in circumstances where such ability was not already held by a person associated with such person or group of associated persons.

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