A2 Corporation Limited

Appraisal Report

In Respect of the Proposed Processing, Packaging, Warehousing and Delivery Agreement

October 2013

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Index

1. Introduction

1.1 Overview of A2 Corporation Limited

A2 Corporation Limited (**A2C** or the **Company**) is a premium branded fast moving consumer goods (**FMCG**) and ingredients business. It owns and commercialises unique intellectual property (patents, proprietary processes, know-how, brands and trademarks) relating to a2™ brand milk and related products in international markets. The Company has trading activities in Australia, New Zealand, the UK and China.

A2C is listed on the main board equity security market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of $423 million as at 25 October 2013 and total equity of $60 million as at 30 June 2013.

1.2 Freedom Foods Group Limited

Freedom Foods Group Limited (**Freedom**) is A2C's largest shareholder. It holds:

- 111,250,982 fully paid ordinary shares in the Company, representing 17.88% of A2C's fully paid shares on issue
- 5,685,147 partly paid ordinary shares in the Company, representing 20.54% of A2C's partly paid shares on issue.

Freedom provides for specialised needs in the global food industry. Its operating activities comprise:

- Freedom Foods, an integrated leading brand manufacturer of allergen free cereals and snacks
- Pactum Group, a provider of ultra-high temperature processing (**UHT**) (long life) packaging solutions for food and beverages (including dairy) for branded and private label customers
- speciality seafood brands operating in the canned sardines and salmon markets.

Freedom has a strong market presence in Australia and New Zealand, with an increasing export focus to North America (for Freedom Foods) and China and South East Asia (for the Pactum Group through the supply of UHT milk products).

Freedom and A2C previously had a 50:50 joint venture (**JV**) in Australia (A2 Dairy Products Australia Pty Limited (**A2DP**)) which had the exclusive rights to produce and distribute a2™ brand milk products in Australia and Japan. Freedom acquired its initial shareholding in the Company in July 2010 when A2C acquired the remaining 50% of A2DP from Freedom in exchange for shares in A2C.

Freedom is listed on the Australian Securities Exchange with a market capitalisation of A$483 million as at 25 October 2013, total equity of A$82 million as at 30 June 2013 and revenue of A$89 million in the 2013 financial year.

The company has a broad range of Australian institutional shareholders and a major shareholder, the Perich Group, a Sydney based family owned group involved in dairy farming, agriculture and property development.

1.3 Pactum Agreement

A2 Exports Australia Pty Limited (**A2 Exports**) is a wholly owned subsidiary of A2C. A2 Exports proposes to enter into a processing, packaging, warehousing and delivery agreement with Pactum Australia Pty Limited (**Pactum Australia**) and Pactum Dairy Group Pty Limited (**Pactum Dairy**) (the **Pactum Agreement**).

Pactum Australia is a wholly owned subsidiary of Freedom. It contract manufactures UHT products at its processing and packaging facility located at Taren Point, New South Wales, Australia (the **Taren Point Facility**). It processes and packages UHT products for a range of private label and proprietary customers (including Freedom's *Australia's Own* and *Blue Diamond* brands almond milk).

Pactum Australia has supplied a2™ UHT milk products to A2DP since 2009.

Pactum Dairy is a 50:50 JV between Pactum Australia and Australian Consolidated Milk Pty Limited (**ACM**). ACM is an Australian dairy milk supply group based in the Goulburn River Valley, Victoria. It was established by dairy farmers in 2008 and now has about 50 suppliers.

Pactum Dairy is constructing a A$40 million state-of-the-art UHT milk processing facility located at Shepparton, Victoria, Australia (the **Shepparton Facility**). The Shepparton Facility will be managed by Pactum Australia and is expected to commence commercial operations by January 2014. The facility will focus on supplying high quality UHT dairy milk for export markets to proprietary and private label customers in South East Asia and China. The initial capabilities of the plant will be 200 ml portion packs and 1 litre UHT configuration. Initial capacity will be up to 100 million litres, with the ability to significantly increase this capacity in the longer term.

The proposed terms of the Pactum Agreement have been approved by the respective boards of A2 Exports, Pactum Australia and Pactum Dairy, subject to A2C obtaining shareholder approval.

The proposed key terms of the Pactum Agreement (excluding certain confidential information) are set out in the Explanatory Notes of the Company's notice of annual meeting and include:

- collectively, Pactum Dairy (through the Shepparton Facility) and Pactum Australia (through the Taren Point Facility) will supply or procure supply of A2 Exports' volume requirements for a2™ UHT milk for Australia, New Zealand, South East Asia and mainland China
- the Pactum Agreement will commence with an initial term of 5 years. The parties will meet during the second year of the initial term to discuss extending the 5 year term and may agree to extend the initial term for a period of between 12 and 24 months
- the price per litre of packaged a2™ UHT milk will be at cost plus a margin that reduces according to the volume of a2™ UHT milk processed under the Pactum Agreement.

1.4 Annual Meeting

The Company's shareholders not associated with Freedom, Pactum Dairy or Pactum Australia (the **Non-associated Shareholders**) will vote on an ordinary resolution in respect of the Pactum Agreement (the **Pactum Agreement Resolution**) at the Company's annual meeting on 19 November 2013.

Freedom and its associated persons are not permitted to vote on the Pactum Agreement Resolution.

Shareholders will also vote on ordinary resolutions in respect of:

- the reappointment of Ernst & Young as the auditors of the Company and authorising the Company's board of directors (the **Board**) to fix the auditors' remuneration
- the re-election of Cliff Cook as a director of the Company
- the re-election of David Mair as a director of the Company
- the election of Julia Hoare as a director of the Company
- increasing the maximum number of directors from 7 to 8
- increasing the total amount of directors' fees payable to directors by $350,000 to not more than $600,000.

1.5 Regulatory Requirements

Listing Rule 9.2.1 of the NZSX Listing Rules (the **Listing Rules**) stipulates that an Issuer shall not enter into a Material Transaction if a Related Party is a party to the Material Transaction or to one of a related series of transactions of which the Material Transaction forms part without first obtaining approval of the transaction by way of an ordinary resolution from shareholders not associated with the Related Party.

The policy behind Listing Rule 9.2.1 is to prevent a party with influence over an Issuer from exerting that influence to procure the entry by the Issuer into a transaction with a Related Party and thereby unfairly transferring value from the Issuer to the Related Party.

A Material Transaction is defined by Listing Rule 9.2.2(e) to include obtaining any services in respect of which the annual gross cost to the Issuer in any financial year is likely to exceed an amount equal to 1% of the Average Market Capitalisation of the Issuer.

Pactum Australia and Pactum Dairy are Related Parties of A2C under Listing Rule 9.2.3(c) as they are Associated Persons of Freedom, which currently holds 17.88% of the fully paid shares in A2C.

The Pactum Agreement does not currently exceed the thresholds for a Material Transaction. However, the Board considers that in due course, the value of services obtained pursuant to the Pactum Agreement may be such that the actual gross cost to A2 Exports in a financial year will constitute a Material Transaction under Listing Rule 9.2.2(e).

A2C is therefore seeking shareholder approval of the Pactum Agreement at this relatively early stage so as to avoid the need to seek shareholder approval later as the value of services obtained by A2 Exports increases.

An Appraisal Report on the Pactum Agreement is required under Listing Rule 9.2.5(b).

1.6 Purpose of the Report

The directors of A2C not associated with Pactum Dairy and Pactum Australia (the **Non-associated Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Appraisal Report in accordance with Listing Rule 9.2.5.

Simmons Corporate Finance was approved by NZX on 9 September 2013 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Appraisal Report to the Non-associated Directors to assist the Company's shareholders not associated with Freedom, Pactum Dairy and Pactum Australia (the **Non-associated Shareholders**) in forming their own opinion on whether to vote for or against the Pactum Agreement Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of the Pactum Agreement in relation to each shareholder. This report on the Pactum Agreement is therefore necessarily general in nature.

The Appraisal Report is not to be used for any other purpose without our prior written consent.

Any references to $ are references to New Zealand dollars. References to Australian dollars are denoted as A$.

2. Evaluation of the Fairness of the Pactum Agreement

2.1 Basis of Evaluation

Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Pactum Agreement are *fair* to the Non-associated Shareholders.

There is no legal definition of the term *fair* in New Zealand in either the Listing Rules or in any statute dealing with securities or commercial law.

In our opinion, the Pactum Agreement will be fair to the Non-associated Shareholders if the processing, packaging, warehousing and delivery services are provided on arms-length commercial terms and there is no transfer of value from the Non-associated Shareholders to Freedom, Pactum Dairy or Pactum Australia.

We are of the view that an assessment of the fairness of the consideration and the terms and conditions of Pactum Agreement should focus on:

- the rationale for the Pactum Agreement
- the terms and conditions of the Pactum Agreement
- the implications if the Pactum Agreement Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Evaluation of the Fairness of the Pactum Agreement for the Purposes of Listing Rule 1.7.2

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Pactum Agreement are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.5. In summary, the key factors leading to our opinion are:

- the rationale for the Pactum Agreement is sound:
  - collectively, Pactum Australia and Pactum Dairy will supply all of A2C's volume requirements for a2™ UHT milk for Australia, New Zealand, South East Asia and mainland China
  - it will provide A2C with long term access to the Shepparton Facility
  - there are currently no viable alternative sources of supply for the Company's a2™ UHT product needs
- we consider the terms and conditions of the Pactum Agreement to be fair:
  - the term of the agreement provides A2C with certainty of supply in the short to medium term and also provides for changes in the future in the event that new market participants or new supply options emerge
  - the cost plus pricing formula coupled with an overriding competitive pricing mechanism is a transparent and cost effective pricing arrangement

- the implications of the Pactum Agreement Resolution not being approved are that A2C is likely to continue with the current short term arrangements with Pactum Australia and Pactum Dairy. Shareholder approval of these arrangements is not required at this point in time as the current value of the services does not constitute a Material Transaction under Listing Rule 9.2.2(e). At some time in the future, the Board may or may not seek to renegotiate some aspects of the Pactum Agreement and once again seek shareholder approval (at additional cost to the Company) if the services provided under the Pactum Agreement were about to reach the threshold of being a Material Transaction.

2.3 Rationale for the Pactum Agreement

Pactum Australia has supplied a2™ UHT milk products to A2DP since January 2009. The services have been provided under a buy / sell arrangement rather than any formal agreement.

A2C undertook a strategic review of its operations in 2012. A key outcome identified was the expanded distribution of a2™ UHT milk products internationally, with a particular focus on markets in Asia. The Asian distribution of a2™ UHT milk products is to be undertaken by A2 Exports.

In order to expand the distribution of a2™ UHT milk, the board of A2 Exports entered into short term processing, packaging, warehousing and delivery arrangements with Pactum Australia in early 2013. Subsequent to this, the board of A2 Exports has conditionally agreed the proposed terms of a longer term processing, packaging, warehousing and delivery services agreement with Pactum Australia and Pactum Dairy in the form of the Pactum Agreement.

A key objective of the Pactum Agreement is to provide A2C with long term access to the Shepparton Facility, which is Pactum Dairy's new state-of-the-art A$40 million UHT milk processing facility that will be managed by Pactum Australia and is expected to commence commercial operations by January 2014. The Pactum Agreement will also ensure that A2 Exports has access to the Taren Point Facility. The Board is of the view that Pactum Australia and Pactum Dairy are the most suitable and only viable suppliers of UHT products for A2C in Australasia who would be prepared to process increasing quantities of a2™ raw milk into finished UHT product and have available capacity.

The Board does not consider that there are any other viable sources of supply for the Company's a2™ UHT product needs at present. A2C has advised that other potential major suppliers would not have the interest or capability in supplying a2™ UHT milk products at this point in time.

2.4 Terms of the Pactum Agreement

Basis of Negotiation

The Pactum Agreement is currently in the form of a terms sheet. It was negotiated at arm's length between the parties and each party took separate legal advice.

Geoff Babidge (managing director and chief executive officer), Simon Hennessy (general manager infant nutrition and group operations) and Shareef Khan (chief supply chain officer) led the negotiations on behalf of A2C.

The Board members associated with Freedom (Perry Gunner and Melvyn Miles) did not take part in the Board's decision regarding the Pactum Agreement.

If the Pactum Agreement Resolution is approved, A2C will enter into a more formal long-form agreement with Pactum Australia and Pactum Dairy.

Key Terms

The proposed key terms of the Pactum Agreement (excluding certain confidential information) are set out in the Explanatory Notes of the Company's notice of annual meeting and are not replicated in this report so as to avoid unnecessary duplication.

Of key importance in our review of the fairness of the terms and conditions of the Pactum Agreement are:

- collectively, Pactum Dairy (through the Shepparton Facility) and Pactum Australia (through the Taren Point Facility) will supply or procure supply of A2 Exports' volume requirements for a2™ UHT milk for Australia, New Zealand, South East Asia and mainland China
- the Pactum Agreement will be for an initial term of 5 years. The parties will meet during the second year of the initial term to discuss extending the 5 year term and may agree to extend the initial term for a period of between 12 and 24 months. If neither party gives not less than 6 months written notice of its intention not to renew prior to the expiration of the 5 to 7 year initial term, A2C will be required to seek further shareholder approval of the Pactum Agreement and provided such approval is obtained, the arrangement will renew for a further period of 5 years beyond the 5 to 7 year initial term
- the price per litre of packaged a2™ UHT milk will be at cost plus a margin that reduces according to the volume of a2™ UHT milk processed under the Pactum Agreement.

Term of the Agreement and Exclusivity

We consider the term of the Pactum Agreement to be reasonable as it provides A2C with certainty of supply in the short to medium term and also provides for changes in the future in the event that new market participants or new supply options emerge:

- the arrangement will be for an initial term of 5 years and may be extended for a period of between 12 and 24 months
- except where Pactum Australia and Pactum Dairy are unable to meet demand or decline to supply new packaging formats, A2 Exports will use Pactum Australia and Pactum Dairy as its exclusive provider in relation to all of A2 Exports' and A2C's a2™ UHT milk requirements (using a2™ raw milk) sourced from New Zealand and Australia for sale in Australia, New Zealand, South East Asia and mainland China
- Pactum Australia and Pactum Dairy must not, directly or indirectly, process or package any competing products or assist any other person to do so. Competing products are defined as milk or milk products which have not more than 10% beta-casein variant A1 content.

Pricing

The price per litre of packaged a2™ UHT milk will be at cost plus a margin that reduces according to the volume of a2™ UHT milk processed in any contract year. Cost includes labour, materials, utilities and an appropriate allocation for overheads relative to the volume of a2™ UHT milk processed.

We consider a cost plus pricing formula coupled with an overriding competitive pricing mechanism to be an appropriate and cost effective arrangement for A2C:

- the cost plus pricing formula is transparent as costs will be determined on an open-book basis and reviewed each December and June
- based on our discussions with industry sources, the margins are reasonable
- the arrangement provides for cost reduction as volumes increase through reduced margins
- pricing will be set half yearly based on agreed margins above fully transparent costs, having regard to A2 Exports' need to ensure that pricing is competitive
- pricing may also be reviewed at A2 Exports' election having regard to services competitiveness, competitiveness within New Zealand and Australia and / or tariff implications
- Pactum Australia and Pactum Dairy must use all reasonable endeavours to minimise all costs relevant to pricing, making available the benefits of all efficiency enhancements including those resulting from increased capacity usage at the Shepparton Facility whether by A2 Exports or others
- pricing must be competitive against the pricing of services from other UHT processors / packagers at the relevant time, taking into account volume supplied, the period of supply in the year and quality specification. A2C will have the ability to seek proposals for competitive supply from other UHT processors / packagers from time to time
- in time, A2C will be in a position to benchmark pricing against information obtained in connection with the anticipated negotiation of contracts for supply of a2™ UHT milk in other international markets.

Conclusion

In our view, the terms and conditions of the Pactum Agreement are fair to the Non-associated Shareholders.

2.5 Implications of the Pactum Agreement Resolution not Being Approved

In the event that the Pactum Agreement Resolution is not approved, then A2C is likely to continue with the short term arrangements with Pactum Australia and Pactum Dairy in respect of processing, packaging, warehousing and delivery of A2 Exports' requirements for a2™ UHT milk.

Shareholder approval of these arrangements is not required at this particular point in time as the value of services obtained from Pactum Australia and Pactum Dairy in the near term will not constitute a Material Transaction under Listing Rule 9.2.2(e). However, A2C will only be able to obtain services from Pactum Australia and Pactum Dairy on terms that ensure that the actual gross costs of such services to A2 Exports do not exceed an amount equal to 1% of A2C's Average Market Capitalisation in any financial year.

At some time in the future, the Board may or may not seek to renegotiate some aspects of the Pactum Agreement and once again seek shareholder approval of the Pactum Agreement if it considered that the services provided by Pactum Australia and Pactum Dairy were about to reach the threshold of being a Material Transaction. The need to once again seek shareholder approval of the Pactum Agreement will represent an additional cost for the Company.

2.6 Voting For or Against the Pactum Agreement Resolution

Voting for or against the Pactum Agreement Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of A2 Corporation Limited

3.1 Background

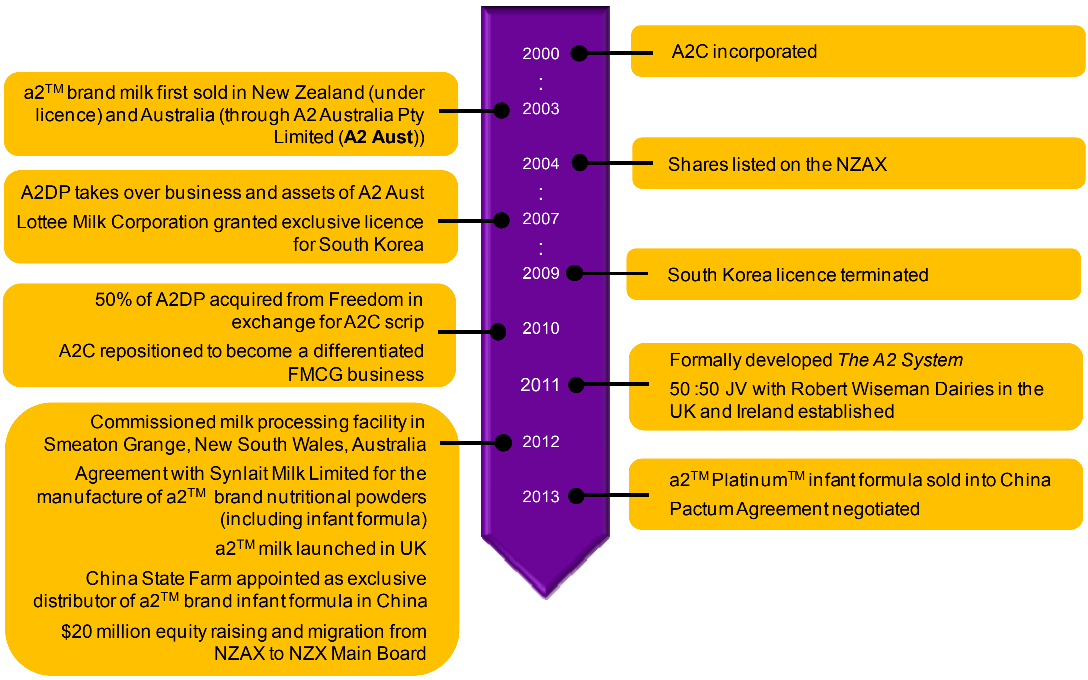
A2C was founded by Howard Paterson and Dr Corran McLachlan. It was incorporated on 17 February 2000 and issued approximately 20.4 million A class shares and 115.7 million B class shares.

The Company's business was initially based around the research of Dr McLachlan in respect of beta casein A1, a protein found in milk.

The Company's shares were initially traded on the unlisted securities market. A2C listed on the alternative market (**NZAX**) operated by NZX on 21 April 2004. Prior to listing on the NZAX, the Company's share capital was restructured into one class.

Following a $20 million equity raising and the sell down of $70 million of shares by 3 shareholders, the Company migrated its listing to the NZX Main Board on 7 December 2012.

A2C's key events are set out below.



3.2 Nature of Operations

The Company owns a suite of global intellectual property that enables the identification of cattle for the production and subsequent marketing of milk that does not contain A1, which it calls a2™ brand milk. This milk only contains the A2 type of the protein beta casein. A growing body of scientific research links milk high in A2 beta casein protein with improved digestive comfort and fewer intolerance-type reactions relative to milk carrying the A1 variant.

Since July 2010 (following A2C acquiring from Freedom the 50% of A2DP that it did not own and Freedom acquiring a shareholding in the Company) A2C has transitioned from being an owner of global intellectual property to a FMCG business producing and marketing highly differentiated products globally. This has been driven by a focus on commercialising A2C's intellectual property in preference to the prior strategy of licensing the a2™ brand to third parties.

a2™ brand milk has been sold in New Zealand since 2003 under licence. Fresha Valley Processors (Waipu) Limited is currently the sole (non exclusive) licensee selling a2™ brand milk in New Zealand, branded as *fresh A2*.

A2C's suite of intellectual property allows it to enter multiple international markets in different dairy categories, forming partnerships with industry participants with operating assets as set out below.

Country	Australia	UK	China
Target market	Premium liquid milk	Premium liquid milk	Premium infant formula
Partnership	Freedom JV	Robert Wiseman Dairies JV	China State Farm agreement
A2C asset contribution	A2C trademarks *The A2 System*	A2C trademarks *The A2 System*	A2C trademarks Supply agreement

3.3 Key Issues Affecting A2C

The main industry and specific business factors and risks that A2C faces include:

- the protection of its intellectual property
- the success or otherwise in generating sales of a2™ brand milk and related products in new and existing territories
- the outcome of further scientific investigations in respect of beta-casein A1 and A2
- the ability to recruit and retain key personnel
- changes in economic conditions and foreign exchange rates in the key markets that it focuses on
- changes in the regulatory environment in respect of the production and sale of milk and milk products
- the impact of consumer shifts away from premium priced products
- increases in supply chain inputs and / or failure of third parties to provide input products and services.

3.4 Directors and Senior Management

The directors of A2C are:

- Geoff Babidge, managing director and chief executive officer (formerly a director of Freedom)
- Cliff Cook, chair
- Richard Le Grice, independent director
- Perry Gunner, deputy chair (also chair of Freedom)
- Gregory Hinton, independent director
- David Mair, independent director
- Melvyn Miles (also a director of Freedom).

The Company's senior management team consists of:

- Geoff Babidge – managing director and chief executive officer global
- Sarah Kolkman – chief financial officer and company secretary
- Peter Nathan – general manager Australia and New Zealand
- Simon Hennessy – general manager infant nutrition and group operations
- Sean Uprichard – chief executive officer UK
- Dr Andrew Clarke – chief scientific officer
- Shareef Khan – chief supply chain officer
- Susan Massasso – chief marketing officer.

3.5 Capital Structure and Shareholders

A2C currently has 650,066,979 shares on issue:

- 622,381,832 fully paid ordinary shares held by 2,953 shareholders
- 27,685,147 partly paid ordinary shares held by 7 shareholders.

The names, number of shares and percentage holding of the 10 largest holders of fully paid shares as at 14 October 2013 are set out below.

A2C's 10 Largest Shareholders – Fully Paid Shares

Shareholder	No. of Shares Held	%
New Zealand Central Securities Depository Limited (**NZCSD**)	302,310,970	48.57%
Freedom	111,250,982	17.88%
Mountain Road Investments Limited (**MRIL**)	57,558,701	9.25%
JBWere (NZ) Nominees Limited	7,365,962	1.18%
Ulrike McLachlan	7,135,163	1.15%
Gregory Hinton and Rosslyn Hinton	5,000,000	0.80%
Holem Pty Limited	5,000,000	0.80%
Forsyth Barr Custodians Limited	4,278,898	0.69%
TP Trustee Bendemmer Limited	4,000,000	0.64%
Superlife Trustee Nominees Limited	3,662,141	0.59%
Subtotal	507,562,817	81.55%
Others (2,943 shareholders)	114,819,015	18.45%
Total	622,381,832	100.00%

Source: NZX Data

NZCSD operates as a custodian trustee. Included in the NZCSD shareholding are:

- 71,855,577 fully paid shares (11.55%) held for Cogent Nominees (NZ) Limited
- 60,875,264 fully paid shares (9.78%) held for HSBC Nominees (New Zealand) Limited
- 47,681,756 fully paid shares (7.66%) held for The Trustees Executors and Agency Company of New Zealand Limited
- 32,851,537 fully paid shares (5.28%) held for NZ Superannuation Fund Nominees Limited.

Freedom is A2C's largest shareholder, holding 17.88% of the fully paid shares and 20.54% of the partly paid shares.

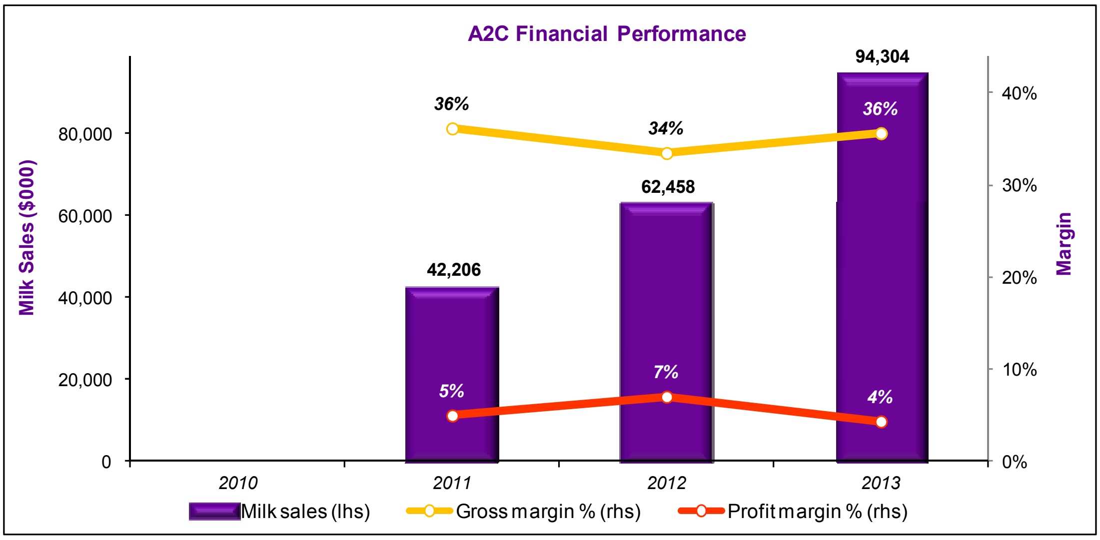
MRIL holds 9.25% of the fully paid shares. MRIL is owned by interests associated with Cliff Cook, the Company's chair.

The 27,685,147 partly paid shares were issued at between $0.10 and $0.55 per share, partly paid to 1% of the issue price. They are held by 2 Company directors (Mr Babidge and Mr Mair), 4 company executives and Freedom.

3.6 Financial Performance

Summary of A2C Financial Performance				
	Year to 30 Jun 10 (Audited) $000	Year to 30 Jun 11 (Audited) $000	Year to 30 Jun 12 (Audited) $000	Year to 30 Jun 13 (Audited) $000
Milk sales	-	42,206	62,458	94,304
Gross margin	-	15,271	20,927	33,633
Profit / (loss) before tax	(2,194)	2,859	4,118	5,164
Profit / (loss) for the year	(2,194)	2,116	4,405	4,120

Source: A2C audited financial statements



Prior to the acquisition of the remaining 50% of A2DP in July 2010 (and its consolidation in A2C's financial results), the Company's operating revenue consisted mainly of licence fees, milk royalties and interest received.

The Company recorded a maiden after tax profit of $2.1 million in the 2011 financial year following its repositioning to being a FMCG business. Milk sales revenue was from sales in Australia.

Milk sales increased by 48% in the 2012 financial year, with the Australian business growing strongly and the Company commencing production at its milk processing facility at Smeaton Grange, New South Wales in February 2012.

Milk sales increased by 51% in the 2013 financial year, driven by continued growth in Australia. The improvement in gross margin was due to efficiencies at the Smeaton Grange facility and a new logistics management structure. The decrease in after tax profit margin was due to A2C's share of losses in the UK JV ($3.7 million), international business development expenses ($1.1 million), costs associated with the strategic review ($0.8 million) and a higher tax charge ($1.0 million).

3.7 Financial Position

Summary of A2C Financial Position	As at 30 Jun 10 (Audited) $000	As at 30 Jun 11 (Audited) $000	As at 30 Jun 12 (Audited) $000	As at 30 Jun 13 (Audited) $000
Current assets	5,527	19,891	24,915	47,703
Non current assets	2,745	12,838	24,757	24,701
Total assets	8,272	32,729	49,672	72,404
Current liabilities	(1,005)	(7,499)	(12,288)	(12,394)
Non current liabilities	-	(47)	(36)	(80)
Total liabilities	(1,005)	(7,546)	(12,324)	(12,474)
Total equity	7,267	25,183	37,348	59,930

Source: A2C audited financial statements

A2C's main current assets as at 30 June 2013 were cash and short term deposits of $20 million and accounts receivables of $24 million.

Its non current assets as at 30 June 2013 consisted mainly of fixed assets of $10 million and $9 million of goodwill in respect of the acquisition of 50% of A2DP in July 2010.

Current liabilities as at 30 June 2013 consisted mainly of accounts payable, accruals and employee entitlements.

3.8 Cash Flows

Summary of A2C Cash Flows	Year to 30 Jun 10 (Audited) $000	Year to 30 Jun 11 (Audited) $000	Year to 30 Jun 12 (Audited) $000	Year to 30 Jun 13 (Audited) $000
Net cash flow from / (used in) operating activities	(1,902)	1,439	88	3,647
Net cash from / (used in) investing activities	17	(2,307)	(12,432)	(5,830)
Net cash from financing activities	20	3,072	11,475	16,022
Net increase / (decrease) in cash held	(1,865)	2,204	(869)	13,839
Opening cash balance	7,165	5,215	7,467	6,568
Effect of exchange rate fluctuations	(85)	48	(30)	(220)
Closing cash balance	5,215	7,467	6,568	20,187

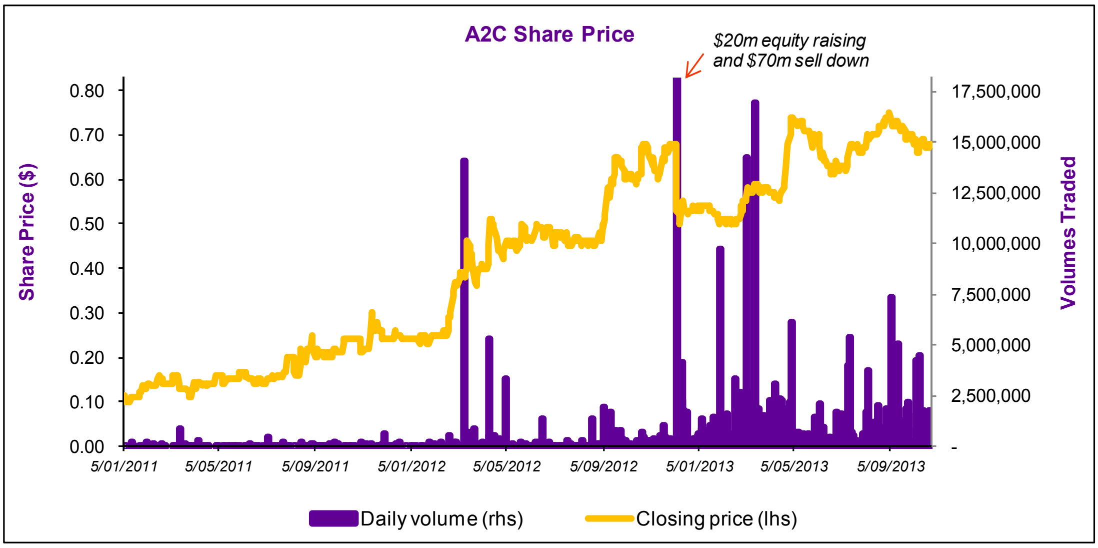
Source: A2C audited financial statements

Cash used in investing activities in the 2012 financial year included $9.3 million in respect of plant and equipment (mainly for the Smeaton Grange facility) and $2.3 million invested in the UK JV.

Cash from financing activities has largely been from the issue of shares each year, including $7.7 million (net) from the issue of 32,761,657 fully paid shares in the 2012 financial year and $21.6 million (net) from the issue of 56,157,921 fully paid shares in the 2013 financial year.

3.9 Share Price History

Set out below is a summary of A2C's daily closing share price and daily volumes of shares traded from 5 January 2011 to 25 October 2013.



Source: NZX Data

During the period, A2C's shares have traded between $0.10 and $0.77 at a volume weighted average share price (**VWAP**) of $0.55.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) for the past year is set out below.

A2C Share Trading

Period	Low [1] $	High [1] $	VWAP [1] $	Volume Traded [1] (000)	Liquidity
1 month	0.66	0.71	0.68	24,864	4.0%
3 months	0.65	0.77	0.70	64,161	10.3%
6 months	0.61	0.77	0.69	114,101	18.3%
12 months	0.50	0.77	0.57	407,220[2]	65.4%[2]

1 To 25 October 2013
2 Includes sell down of 140,000,000 shares at $0.50 per share on 7 December 2012

Source: NZX Data

A2C undertook a $20 million equity raising in December 2012. It issued 40,000,000 shares at $0.50 per share on 11 December 2012. In conjunction with the equity raising, Freedom, MRIL and EGI-Fund (08-10) Investors, LLC collectively sold 140,000,000 shares at $0.50 per share to new and existing investors to provide additional liquidity and A2C migrated its listing from the NZAX to the NZX Main Board.

4. Sources of Information, Reliance on Information, Disclaimer and Indemnity

4.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual meeting
- the Pactum Agreement terms sheet dated 26 August 2013
- A2C's annual reports for the years ended 30 June, 2011 to 2013
- A2C *Strategic Review Outcomes* presentation dated 31 October 2012
- A2C *Private Placement Memorandum* dated 5 December 2012
- A2C *UHT Milk Market International Expansion Business Case* presentation dated 20 February 2013.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of A2C and A2C's legal advisers.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Appraisal Report with all information relevant to the Pactum Agreement that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Appraisal Report.

In our opinion, the information provided by A2C is sufficient to enable the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Pactum Agreement.

4.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by A2C and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of A2C. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this report or to review, revise or update its report.

We have had no involvement in the preparation of the notice of annual meeting issued by A2C and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

4.4 Indemnity

A2C has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. A2C has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with A2C, Freedom, Pactum Dairy or Pactum Australia or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Pactum Agreement.

Simmons Corporate Finance has not had any part in the formulation of the Pactum Agreement or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Pactum Agreement. We will receive no other benefit from the preparation of this report.

5.3 Declarations

An advance draft of this report was provided to the Non-associated Directors for their comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

5.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual meeting to be sent to A2C's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
29 October 2013