

Black Pearl Group Limited

Appraisal Report

In Respect of:

- **an Amendment to the Master Services Agreement with Prospect Desk, LLC**
- **the Equity Conversion Agreement with Crown BP Holdings, LLC**

August 2023

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1. Introduction

1.1 Background

Black Pearl Group Limited (**Black Pearl** or the **Company**) is a data technology company, focused on unlocking the potential of data for small and medium-sized businesses (**SMBs**).

Black Pearl's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of approximately \$21.8 million as at 10 August 2023. Its audited total equity as at 31 March 2023 was approximately \$2.1 million.

A profile of Black Pearl is set out in section 4.

1.2 Agreement with Prospect Desk, LLC

Black Pearl entered into a master services agreement (the **Master Services Agreement**) and a statement of work (the **Statement of Work**) with Prospect Desk, LLC (**Prospect Desk**), under which Prospect Desk provides business consulting services and data processing functions for Black Pearl's latest Software as a Service (**SaaS**) product *Pearl Diver*.

In consideration for the services provided under the Master Services Agreement and Statement of Work, Black Pearl pays a mix of fixed fees and revenue-based fees to Prospect Desk (the **Fees**).

Black Pearl was not required to seek shareholder approval to enter into the Master Services Agreement and Statement of Work as the Fees were capped at \$250,000 (the **Fee Cap**) and any increase in or removal of the Fee Cap is conditional upon shareholder approval.

Black Pearl now proposes to remove the Fee Cap under the Master Services Agreement and Statement of Work (the **Fee Cap Amendment**). This is necessary as Black Pearl is having success selling the *Pearl Diver* product and therefore the \$250,000 Fee Cap is expected to be reached later this year.

Prospect Desk does not hold any shares in Black Pearl. It is however a Related Party of Black Pearl (as defined in the NZX Listing Rules (the **Listing Rules**)) as Tim Crown, Black Pearl's non-executive chair, has an ownership in Prospect Desk through his private investment company, AZ Crown Investments (**AZ Crown**).

Mr Crown is the co-founder and chair of the NASDAQ-listed Fortune 500 company Insight Enterprises, Inc.

1.3 Equity Conversion Agreement with Crown BP Holdings, LLC

Crown BP Holdings, LLC

Crown BP Holdings, LLC (**Crown BP**) is Black Pearl's third largest shareholder, holding 7.53% of the Company's shares.

Crown BP is an Associated Person (as defined in the Listing Rules) of Mr Crown as he is a manager of Crown BP (through his membership of Anchor Management, LLC) and is also a member of Crown BP.

Promissory Note

On 26 November 2022, Crown BP advanced \$2.4 million to Black Pearl with a fixed interest rate of 1% per annum, payable quarterly in arrears (the **Debt**) under a promissory note agreement dated 24 November 2022 (the **Promissory Note**).

Under the Promissory Note, Black Pearl:

- granted Crown BP 2,500,000 warrants (the **Warrants**)
- agreed to repay 50% of the Debt on or before 23 December 2023 and the remaining 50% on or before 23 January 2025.

The Promissory Note was amended on 13 April 2023, extending the 2 Debt repayment dates by 12 months (the **Promissory Note Amendment**).

Equity Conversion Agreement

Black Pearl and Crown BP entered into a conditional equity conversion agreement on 26 June 2023 (the **Equity Conversion Agreement**) to fully capitalise the Debt owed under the Promissory Note into ordinary shares in Black Pearl at a conversion price of \$0.63 per share (the **Conversion Price**).

This will result in the issue of 3,840,106 new fully paid ordinary shares to Crown BP to fully satisfy the Debt (the **Crown Allotment**) (assuming accrued interest on the Debt at the date of conversion [being 7 days after the date of the Company's annual meeting of shareholders] amounts to \$19,267).

The Equity Conversion Agreement is conditional on Black Pearl receiving shareholder approval for the Crown Allotment.

Should the resolution not be passed, the Debt will be repayable in cash in accordance with the terms of the Promissory Note and the Promissory Note Amendment.

Shareholding Levels Post the Crown Allotment

The Company's shareholders not associated with Mr Crown, Crown BP or Ohana Farms, LLC (**Ohana**) (a related entity of Mr Crown) (the **Non-associated Shareholders**) currently collectively hold 37,645,224 ordinary shares, representing 91.53% of the Company's ordinary shares on issue.

If the Equity Conversion Agreement is approved by the Non-associated Shareholders:

- 3,840,106 new ordinary shares will be issued to Crown BP under the Crown Allotment
- Crown BP's shareholding level in Black Pearl will increase by 7.90% from 7.53% to 15.43%
- the combined shareholding of Crown BP and Ohana (together the **Crown Associates**) will increase by 7.82% from 8.47% to 16.29%
- the Non-associated Shareholders' collective shareholding level will decrease by 7.82% from 91.53% to 83.71%.

Shareholding Levels Post the Crown Allotment					
	Current		Crown Allotment	Post the Crown Allotment	
	No. of Shares	%	No. of Shares	No. of Shares	%
Crown BP	3,098,129	7.53%	3,840,106	6,938,235	15.43%
Ohana	387,024	0.94%	-	387,024	0.86%
Crown Associates	3,485,153	8.47%	3,840,106	7,325,259	16.29%
Non-associated Shareholders	37,645,224	91.53%	-	37,645,224	83.71%
Total	41,130,377	100.00%	3,840,106	44,970,483	100.00%

1.4 Annual Meeting

Black Pearl is holding its annual meeting of shareholders on 4 September 2023, where the Company will seek shareholder approval of ordinary resolutions in respect of:

- the Fee Cap Amendment (resolution 3 – the **Fee Cap Amendment Resolution**)
- the Equity Conversion Agreement (resolution 5 – the **Equity Conversion Agreement Resolution**).

An ordinary resolution is a resolution passed by a simple majority of votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

Crown BP and its Associated Persons (as defined in the Listing Rules) are not permitted to vote on the Equity Conversion Agreement Resolution.

Mr Crown and Ohana are Associated Persons of Prospect Desk and Crown BP and therefore are not permitted to vote on either the Fee Cap Amendment Resolution or the Equity Conversion Agreement Resolution.

The Company's shareholders will also vote at the annual meeting on resolutions in respect of:

- the Company's auditor's remuneration (resolution 1)
- the election of Hugo Fisher as a director (resolution 2)
- the ratification of the issue of 5,250,407 shares on 26 June 2023 (resolution 4)
- the issue of up to 2,056,518 restricted share units to key personnel (resolution 6).

1.5 Summary of Opinions

Fee Cap Amendment

Our evaluation of the fairness of the Fee Cap Amendment as required under the Listing Rules is set out in section 2.

In our opinion, after having regard to all relevant factors, the terms and conditions of the Fee Cap Amendment are fair to the Non-associated Shareholders.

Equity Conversion Agreement

Our evaluation of the fairness of the Equity Conversion Agreement as required under the Listing Rules is set out in section 3.

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

1.6 Regulatory Requirements

Fee Cap Amendment

Listing Rule 5.2.1 stipulates that an Issuer must 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 unless the Material Transaction is approved by way of an ordinary resolution from shareholders not associated with the Related Party.

The Fee Cap Amendment is a Material Transaction as the Fees payable to Prospect Desk in any future financial year will likely exceed 1% of the Company's Average Market Capitalisation and Prospect Desk is a Related Party of the Company due to Mr Crown's ownership interest in the company.

Listing Rule 7.8.8 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 5.2.1.

Equity Conversion Agreement

Listing Rule 4.1.1 stipulates that an Issuer must only issue Equity Securities with approval by ordinary resolution in accordance with Listing Rule 4.2.1.

Listing Rule 7.8.5 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution in respect of the issue of Financial Products (ie the Crown Allotment) as required by Listing Rule 7.8.4 and more than 50% of the Financial Products to be issued are intended or likely to be acquired by Directors or Associated Persons of Directors (ie Tim Crown).

The Equity Conversion Agreement is a Material Transaction as the market value of the Crown Allotment exceeds 10% of the Company's Average Market Capitalisation and Crown BP is a Related Party of the Company as Crown BP is an Associated Person of Mr Crown.

Listing Rule 7.8.8 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 5.2.1.

1.7 Purpose of the Report

The Company's directors not associated with Mr Crown, being Hugo Fisher, Nick Lisette, Mark Osborne and Cheryl Pressley (the **Non-associated Directors**) have engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the Fee Cap Amendment and the Equity Conversion Agreement in accordance with the Listing Rules.

Simmons Corporate Finance was approved by NZX Regulation Limited (**NZ RegCo**) on 27 July 2023 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Appraisal Report to the Non-associated Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Fee Cap Amendment Resolution and the Equity Conversion 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 Fee Cap Amendment or the Equity Conversion Agreement in relation to each shareholder. This report on the fairness of the Fee Cap Amendment and the Equity Conversion Agreement is therefore necessarily general in nature.

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

1.8 Currency References

Currency references in this report are to:

- **\$** – New Zealand dollars
- **US\$** – USA dollars.

2. Evaluation of the Fairness of the Fee Cap Amendment

2.1 Basis of Evaluation

Listing Rule 7.10.2 requires an Appraisal Report to consider whether the terms and conditions of the Fee Cap Amendment are *fair* to the Company's shareholders not associated with Prospect Desk.

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

In our opinion, the Fee Cap Amendment will be fair to the Non-associated Shareholders if:

- they are likely to be at least no worse off if the Fee Cap Amendment proceeds than if it does not. In other words, we consider that the Fee Cap Amendment will be fair if there is no value transfer from the Non-associated Shareholders to Prospect Desk, and
- the terms and conditions of the Fee Cap Amendment are in line with market terms and conditions.

We have evaluated the fairness of the Fee Cap Amendment by reference to:

- the fairness of the terms of the Master Service Agreement and Statement of Work
- the rationale for the Fee Cap Amendment
- the benefits and disadvantages to the Non-associated Shareholders of the Fee Cap Amendment
- the benefits and disadvantages to Prospect Desk of the Fee Cap Amendment
- the implications if the Fee Cap Amendment 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 Fee Cap Amendment

In our opinion, after having regard to all relevant factors, the terms and conditions of the Fee Cap Amendment are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.9.

In summary, the key factors leading to our opinion are:

- the terms of the Master Service Agreement and Statement of Work are fair to the Non-associated Shareholders
- the rationale for the Fee Cap Amendment is sound. It will enable Prospect Desk to continue to provide business consulting services and data processing functions for *Pearl Diver*, maintaining the Company's revenue growth and helping to infiltrate the USA SMB market

- the implication of the Fee Cap Amendment Resolution not being approved by the Non-associated Shareholders is that it is highly likely that *Pearl Diver* will no longer be able to provide its services and all revenue associated with *Pearl Diver* will cease, which will adversely impact Black Pearl's growth and development plans. Black Pearl will need to source the data from other providers and develop processing programs to integrate with the *Pearl Engine* technology platform, which will take time and resources that could be spent on other growth and development projects.

2.3 Terms of the Master Services Agreement and Statement of Work

Background

On 23 March 2023, Black Pearl announced the launch of *Pearl Diver*, the Company's new SaaS product that provides businesses unique visibility into their website visitors.

The provision of *Pearl Diver's* services is facilitated by data partnerships and data co-operatives that supply data and associated services that feed into the Company's *Pearl Engine* technology platform. *Pearl Diver* cannot operate without the supply of data.

To this effect, Black Pearl entered into the Master Services Agreement and a Statement of Work with Prospect Desk.

Master Services Agreement

The Master Services Agreement sets out the relationship between Black Pearl and Prospect Desk for the provision of data partnership services for the Company.

The key terms of the Master Services Agreement are:

- a minimum term of 3 years, with the ability to mutually agree to renew the term for a further 3 years, or such other period(s) as agreed to by parties
- Prospect Desk grants Black Pearl a non-exclusive licence to use the data held in its data co-operative
- Black Pearl grants Prospect Desk a limited, non-exclusive, revocable licence to use (including the right to store, process and modify) certain data held by Black Pearl
- until such time as Black Pearl obtains shareholder approval for the Master Services Agreement and all related series of transactions, the aggregate amount Black Pearl is required to pay to Prospect Desk under the Master Services Agreement, statements of work or other related transactions is the Fee Cap (ie \$250,000)
- should the Fees reach the Fee Cap, Prospect Desk may suspend or terminate the Master Services Agreement or any statements of work or related transactions (including any part of them) by giving written notice to Black Pearl
- on termination of the Master Services Agreement, all data licenced through the Master Services Agreement by Prospect Desk and Black Pearl will cease and all Fees payable under the Master Services Agreement and any statements of work will cease
- there are no break fees associated with termination
- upon obtaining shareholder approval, the Fee Cap will cease to apply.

Statement of Work

Under the Master Services Agreement, Black Pearl has the ability to engage with and enter into statements of work or data participation agreements for the provision of services and data contributions to improve and develop the *Pearl Engine*.

Black Pearl has entered into a Statement of Work with Prospect Desk for the provision of business consulting services and data access and processing services for *Pearl Diver*.

The data provided by Prospect Desk under the Statement of Work is supplied to *Pearl Diver* customers and end users as part of *Pearl Diver's* services.

The key terms of the Statement of Work are:

- Prospect Desk will provide the following services:
 - business consulting services in relation to the business strategy and marketing for Black Pearl's products and services
 - access and processing of data
- a term of:
 - in relation to the business consulting services: month to month
 - in relation to the data services: 3 years plus any extension in accordance with the Master Services Agreement
- the following Fees are payable:
 - one-off program set up fee and data access fee: US\$25,000
 - 3 months business consulting fee: US\$5,000 per month
 - monthly data processing fee: 20% of the net revenue collected by Black Pearl from the Company's customers products and / or end users to the extent the net revenue relates to services that use the data supplied processing component provided by Prospect Desk (subject to a minimum fee of US\$15,000)
- the Fee Cap terms in the Master Services Agreement applies.

Fairness of Terms

The negotiations of the terms of the Master Services Agreement on Black Pearl's part were led by Nick Lissette (executive director and chief executive officer), Karen Cargill (chief financial officer), Sam Daish (chief technology officer) and the Company's legal advisers. Prospect Desk's negotiations were led by its chief executive officer and chief information officer.

We are advised by the Non-associated Directors that the terms of the Master Service Agreement and Statement of Work are consistent with what would typically be expected in a commercial services agreement.

It is difficult to benchmark the Fees against comparable data as such data is not publicly available.

Based on our understanding of the background to the negotiations, the representation made by the Non-associated Directors that the terms were negotiated on an arms-length basis and in the absence of publicly available comparable data, we are of the view that the terms of the Master Service Agreement and Statement of Work are fair to the Non-associated Shareholders.

2.4 Rationale for the Fee Cap Amendment

Black Pearl announced on 3 August 2023 that the launch of *Pearl Diver* in March 2023 has generated over \$1 million in new annual recurring revenue (**ARR**) in the 90 days ended 31 July 2023.

The Non-associated Directors have advised us that the Company can only achieve this growth and continued sales if the Fee Cap is removed by way of the Fee Cap Amendment.

The approval of the Fee Cap Amendment will enable Black Pearl to continue to increase its monthly recurring revenue (**MRR**) and ARR through the continuation of services provided through *Pearl Diver*.

The steady increase in MRR and ARR will enhance the Company's growth and profitability and *Pearl Diver* will be the key for Black Pearl being able to infiltrate the SMB market in the USA, providing future growth potential and enhancing the Company's ability to attract overseas investors.

In our view, the rationale for the Fee Cap Amendment is sound. It will enable the Company to continue its MRR and ARR growth through the continuation of services provided through *Pearl Diver* and help to infiltrate the USA SMB market.

2.5 Main Advantage to the Non-associated Shareholders of the Fee Cap Amendment

The Fee Cap Amendment solidifies Black Pearl's commercial relationship with Prospect Desk, enabling the Company to continue to grow its revenue and help infiltrate the USA SMB market.

2.6 No Disadvantages to the Non-associated Shareholders of the Fee Cap Amendment

In our view, there are no disadvantages to the Non-associated Shareholders associated with the Fee Cap Amendment.

2.7 Other Issues for the Non-associated Shareholders to Consider

No Impact on Share Price and Liquidity

On the basis that the terms and conditions of the Master Services Agreement and Statement Of Work are fair, we are of the view that the Fee Cap Amendment will have no impact on Black Pearl's share price and the liquidity of the Company's shares.

No Change in Business Risk

The Fee Cap Amendment will have negligible impact on the business risks faced by the Company other than the Master Services Agreement and any statements of work under it are governed by the laws of the State of Arizona and any disputes will be subject to dispute resolution procedures in Arizona. Therefore if the Company had to enforce the terms of the Master Services Agreement and any statements of work under it, it would be required to do so in the jurisdiction of Arizona.

The total liability of Prospect Desk or Black Pearl under the Master Services Agreement or any statements of work under it is limited to the total amount paid by Black Pearl under the Master Services Agreement or any statements of work under it. There is a risk that Prospect Desk's liability to the Company may exceed that liability limit and Black Pearl would be unable to fully recuperate any loss.

2.8 Likelihood of the Fee Cap Amendment Resolution Being Approved

The Fee Cap Amendment Resolution is an ordinary resolution, passed by a simple majority of votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

Prospect Desk does not hold any shares in the Company. The Crown Associates are not permitted to vote on the Fee Cap Amendment Resolution. Therefore shareholders holding 91.53% of the shares will determine the outcome of the Fee Cap Amendment Resolution (assuming they all vote).

The Non-associated Directors have unanimously recommended that the Non-associated Shareholders vote in favour of the Fee Cap Amendment Resolution.

The Company's top 10 shareholders excluding Crown BP collectively hold 50.43% of the Company's shares (representing 55.10% of the maximum number of shares that can vote on the Fee Cap Amendment Resolution) and will therefore significantly influence the outcome of the voting on the resolution if they vote.

We are not aware of how these major shareholders will vote in respect of the resolution.

2.9 Implications if the Fee Cap Amendment Resolution is not Approved

The Fees payable under the Master Services Agreement and Statement of Work are currently limited to the \$250,000 Fee Cap.

If the Fee Cap Amendment Resolution is not approved, then should the revenue from *Pearl Diver* continue to increase and the Fee Cap is reached, Prospect Desk has the ability to suspend or terminate the Master Services Agreement.

If the Statement of Work is terminated, the Non-associated Directors are of the view that it is highly likely that *Pearl Diver* will no longer be able to provide its services and all revenue associated with *Pearl Diver* will cease, which will adversely impact Black Pearl's growth and development plans.

Black Pearl will need to source the data from other providers and develop processing programs to integrate with the *Pearl Engine* technology platform, which will take time and resources that could be spent on other growth and development projects.

2.10 Voting For or Against the Fee Cap Amendment Resolution

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

3. Evaluation of the Fairness of the Equity Conversion Agreement

3.1 Basis of Evaluation

Listing Rule 7.10.2 requires an Appraisal Report to consider whether the terms and conditions of the Equity Conversion Agreement are *fair* to the Company's shareholders not associated with Crown BP.

In our opinion, the Equity Conversion Agreement will be fair to the Non-associated Shareholders if:

- they are likely to be at least no worse off if the Equity Conversion Agreement proceeds than if it does not. In other words, we consider that the Equity Conversion Agreement will be fair if there is no value transfer from the Non-associated Shareholders to Crown BP, and
- the terms and conditions of the Equity Conversion Agreement are in line with market terms and conditions.

We have evaluated the fairness of the Equity Conversion Agreement by reference to:

- the rationale for the Equity Conversion Agreement
- the fairness of the terms of the Equity Conversion Agreement
- the impact of the Equity Conversion Agreement on Black Pearl's financial position
- the impact of the Equity Conversion Agreement on the control of Black Pearl
- the dilutionary impact of the Equity Conversion Agreement
- the impact of the Equity Conversion Agreement on Black Pearl's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Equity Conversion Agreement
- the benefits and disadvantages to Crown BP of the Equity Conversion Agreement
- the implications if the Equity Conversion 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.

3.2 Evaluation of the Fairness of the Equity Conversion Agreement

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

The basis for our opinion is set out in detail in sections 3.3 to 3.13.

In summary, the key factors leading to our opinion are:

- the rationale for the Equity Conversion Agreement is sound. It converts the \$2.4 million Debt (plus accrued interest) into equity, thus preserving the Company's cash reserves
- the terms of the Equity Conversion Agreement are fair. The Conversion Price is at a premium of between 13% and 29% to the recent market prices for the Company's shares and therefore will not be value dilutionary to the Non-associated Shareholders
- the Crown Allotment will have a positive impact on Black Pearl's financial position, preserving over \$2.4 million of the Company's cash resources by issuing equity rather than paying cash to Crown BP to repay the Debt (plus accrued interest)
- the Equity Conversion Agreement will not increase Crown BP's level of control over the Company to any significant degree
- the dilutionary impact of the Equity Conversion Agreement on the Non-associated Shareholders will be approximately 8.5%
- the Equity Conversion Agreement is unlikely to have any negative impact on Black Pearl's share price as the Conversion Price is at a premium to the Company's recent share price
- the Equity Conversion Agreement is unlikely to have any impact on the liquidity of Black Pearl's shares as the number of shares held by the Non-associated Shareholders will not change
- the Equity Conversion Agreement will not change the business risk profile of Black Pearl to any significant degree
- the attraction of Black Pearl as a takeover target is unlikely to change
- the implication of the Equity Conversion Agreement Resolution not being approved by the Non-associated Shareholders is that Black Pearl will need to repay the \$2.4 million Debt in cash on or before 23 January 2026. This would likely require the Company to undertake one or more capital raises in the near term to maintain its solvency.

3.3 Rationale for the Equity Conversion Agreement

In our opinion, the rationale for the Equity Conversion Agreement is sound.

It enables Black Pearl to preserve \$2.4 million of its cash reserves by converting the Debt into equity.

3.4 Terms of the Equity Conversion Agreement

Crown BP advanced the Debt of \$2.4 million to Black Pearl with a fixed interest rate of 1% per annum on 26 November 2022 under the Promissory Note.

Under the Promissory Note Amendment, Black Pearl agreed to repay 50% of the Debt on or before 23 December 2024 and the remaining 50% on or before 23 January 2026.

Under the Equity Conversion Agreement, Black Pearl will issue 3,840,106 new fully paid ordinary shares to Crown BP at the Conversion Price of \$0.63 per share to fully repay the Debt (including an estimated \$19,267 of accrued interest).

The new ordinary shares will be issued on terms identical to, and ranking pari passu with, all of the Company's ordinary shares on the date of the Crown Allotment.

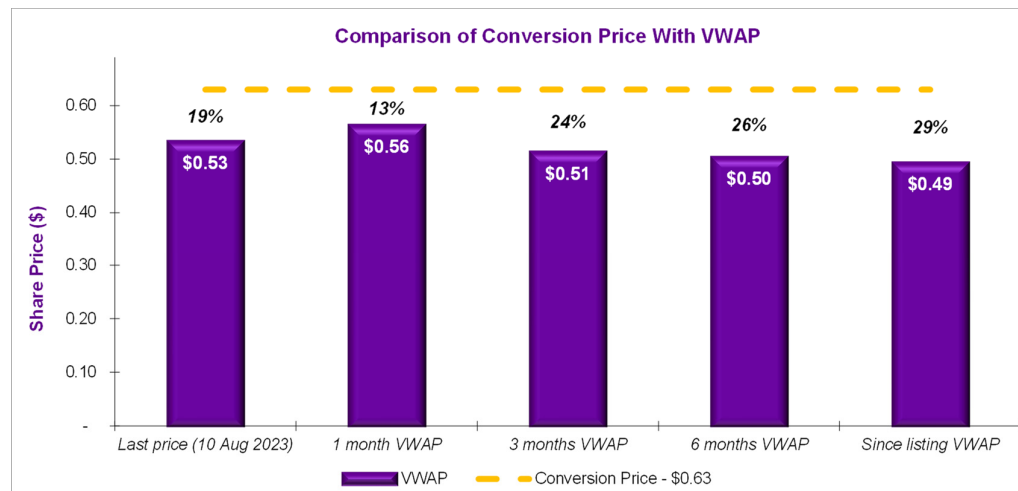
The key term of the Equity Conversion Agreement from the perspective of the Non-associated Shareholders is the Conversion Price.

We understand that the Conversion Price of \$0.63 was agreed between Black Pearl and Crown BP based on a 50% premium to the \$0.42 issue price for the share placements made by the Company in June 2023 which raised \$2.2 million of fresh equity.

A summary of Black Pearl's daily closing share price and monthly volumes of shares traded since it listed on the NZX Main Board on 2 December 2022 is set out in section 4.8.

The Company's shares have traded between \$0.30 and \$1.08 over the period at a volume weighted average share price (**VWAP**) of \$0.49:

- the shares traded at \$0.53 on 10 August 2023
- the one month VWAP to 10 August 2023 was \$0.56
- the 3 months VWAP to 10 August 2023 was \$0.51
- the 6 months VWAP 10 August 2023 was \$0.50
- the VWAP between 2 December 2022 and 10 August 2023 was \$0.49.



The Conversion Price of \$0.63 per share represents a premium of between 13% and 29% to the recent market prices for the Company's shares.

We are of the view that the Conversion Price is fair to the Non-associated Shareholders as it is at a premium to the recent market prices for the Company's shares and accordingly there is unlikely to be any material value transfer from the Non-associated Shareholders to Crown BP through the Crown Allotment.

Based on the above, we are of the opinion that the terms and conditions of the Equity Conversion Agreement are fair to the Non-associated Shareholders.

3.5 Impact on Financial Position

A summary of Black Pearl's recent financial position is set out in section 4.6.

The Company had total equity of approximately \$2.1 million and cash and cash equivalents of approximately \$1.8 million as at 31 March 2023.

If Black Pearl does not issue the shares under the Crown Allotment, then it will be required to repay 50% of the Debt in cash on or by 23 December 2024 and the remaining 50% in cash on or before 23 January 2026.

The issue of shares under the Crown Allotment will have a positive impact on Black Pearl's financial position as the Company's cash resources will be preserved by issuing equity rather than making 2 cash payments totalling \$2.4 million (plus accrued interest) to Crown BP to repay the Debt.

3.6 Impact on Control

Share Capital and Shareholders

Black Pearl currently has 41,130,377 fully paid ordinary shares on issue held by 208 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 4 August 2023 are set out in section 4.4.

Shareholding Voting

As set out in section 1.3, if the Equity Conversion Agreement is approved, Crown BP's shareholding in Black Pearl will increase by 7.90% from 7.53% to 15.43% following the Crown Allotment.

We are of the view that the Crown Allotment will not increase Crown BP's ability to influence the outcome of shareholding voting to any significant degree.

Even with a 15.43% shareholding, Crown BP will not be able to determine the outcome of any special resolutions (which require the approval of 75% of the votes cast by shareholders) or the outcome of any ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders), subject always to applicable voting restrictions under the Listing Rules and the Companies Act 1993.

Similarly, the 7.82% increase in the Crown Associates' control of voting rights from 8.47% to 16.29% following the Crown Allotment will not increase the Crown Associates' ability to influence the outcome of shareholding voting to any significant degree.

We note that any transactions between Black Pearl and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the Listing Rules with respect to transactions with related parties.

Board of Directors

As set out in section 4.3, the Company currently has 5 directors, of whom only Mr Crown is deemed to be an associate of Crown BP.

We are advised by the Non-associated Directors that the Equity Conversion Agreement will not change the composition of the Board in the near term.

Operations

We are advised by the Non-associated Directors that Crown BP's influence over Black Pearl's operations is predominantly through its Board representation and that the approval of the Equity Conversion Agreement will not change Crown BP's level of influence over the Company's operations.

3.7 Dilutionary Impact

The issue of shares under the Crown Allotment will result in the Non-associated Shareholders' shareholdings in the Company being diluted by 8.5%.

By way of example, a shareholder currently holding 1.00% of the Company's shares will hold 0.91% of the Company's shares immediately after the Crown Allotment.

While the dilutionary impact may be considered by some Non-associated Shareholders to be relatively significant, we are of the view that the Non-associated Shareholders' main focus should be on whether there is any dilutionary impact on the value of their respective shareholdings rather than on their level of voting rights. As stated in section 3.4, we are of the view that the terms of the Equity Conversion Agreement are fair to the Non-associated Shareholders from a financial point of view and therefore do not dilute the value of their respective shareholdings.

3.8 Impact on Share Price and Liquidity

Share Price

A summary of Black Pearl's daily closing share price and daily volume of shares traded from 2 December 2022 to 10 August 2023 is set out in section 4.8.

In our view, the Equity Conversion Agreement is unlikely to have any negative impact on the Company's share price as the Conversion Price represents a premium of between 13% and 29% to the recent market prices for the Company's shares.

Liquidity

The analysis in section 4.8 shows that Black Pearl's shares are relatively thinly traded on the NZX Main Board. 11.4% of Black Pearl's shares have traded since the Company's shares commenced trading on the NZX Main Board on 2 December 2022.

In our view, the Equity Conversion Agreement is unlikely to have any impact on the liquidity of the Company's shares as the number of shares held by the Non-associated Shareholders will not change.

3.9 Main Advantage to the Non-associated Shareholders of the Equity Conversion Agreement

The Equity Conversion Agreement enables Black Pearl to preserve \$2.4 million of its cash resources by converting the Debt into equity at the Conversion Price, which is at a significant premium to Black Pearl's current share price.

3.10 Main Disadvantage to the Non-associated Shareholders of the Equity Conversion Agreement

The main disadvantage to the Non-associated Shareholders of the Equity Conversion Agreement is that the Crown Allotment will dilute their interests in the Company by 8.5%.

In our view, the positive aspect of preserving the Company's cash reserves significantly outweighs the dilutionary impact of the Crown Allotment.

3.11 Other Issues for the Non-associated Shareholders to Consider

Benefits to Black Pearl of Crown BP as a Cornerstone Shareholder

The Equity Conversion Agreement will strengthen Crown BP's position as an important strategic investor in the Company, further signalling its confidence in the future prospects of Black Pearl.

No Change in Business Risk

The Equity Conversion Agreement will have negligible impact on the business risks faced by the Company.

Likelihood of a Takeover Offer Unlikely to Change

In our view, irrespective of whether Crown BP holds 7.53% or 15.43% of the Company's shares, it is unlikely to change the attraction of Black Pearl as a takeover target to Crown BP or to other parties:

- as stated in section 3.6, the Crown Allotment will not change Crown BP's level of control over the Company to any significant degree and therefore Crown BP's inclination to make a takeover offer (or not) is unlikely to change
- the decision of any bidder looking to fully or partially take over the Company is unlikely to be influenced by whether Crown BP held 7.53% or 15.43% of the Company's shares.

3.12 Likelihood of the Equity Conversion Agreement Resolution Being Approved

The Equity Conversion Agreement Resolution is an ordinary resolution, passed by a simple majority of votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

The Crown Associates are not permitted to vote on the Equity Conversion Agreement Resolution. Therefore shareholders holding 91.53% of the shares will determine the outcome of the Equity Conversion Agreement Resolution (assuming they all vote).

The Non-associated Directors have unanimously recommended that the Non-associated Shareholders vote in favour of the Equity Conversion Agreement Resolution.

The Company's top 10 shareholders excluding Crown BP collectively hold 50.43% of the Company's shares (representing 55.10% of the maximum number of shares that can vote on the Equity Conversion Agreement Resolution) and will therefore significantly influence the outcome of the voting on the resolution if they vote.

We are not aware of how these major shareholders will vote in respect of the resolution.

3.13 Implications if the Equity Conversion Agreement Resolution is not Approved

If the Equity Conversion Agreement Resolution is not approved, then Black Pearl will have to repay 50% of the Debt (\$1.2 million) plus accrued interest in cash on or before 23 December 2024 and the remaining 50% plus accrued interest in cash on or before 23 January 2026.

The Company had approximately \$1.8 million of cash and cash equivalents as at 31 March 2023. In order to fund its ongoing operations and meet the Debt repayment obligations, Black Pearl would need to undertake one or more capital raises prior to December 2024 to maintain its solvency.

3.14 Voting For or Against the Equity Conversion Agreement Resolution

Voting for or against the Equity Conversion 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. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

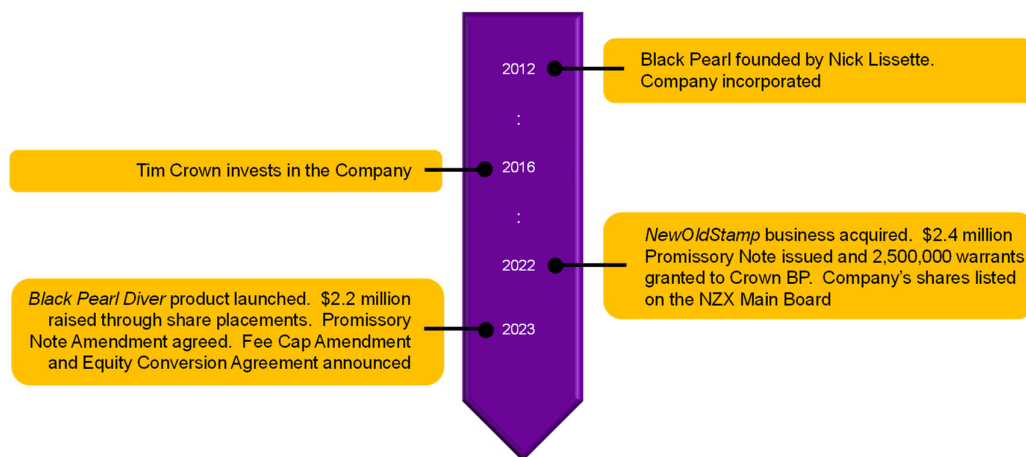
4. Profile of Black Pearl Group Limited

4.1 Background

The Company was incorporated on 25 October 2012 as Black Pearl Mail Limited. It changed its name to Black Pearl Group Limited on 26 October 2022.

Black Pearl's shares were listed on the NZX Main Board on 2 December 2022 by way of a direct listing (ie no fresh equity was raised). As part of the direct listing, Black Pearl issued an NZX Listing Profile dated 29 November 2022 (the **Black Pearl Listing Profile**).

The Company's key events are summarised below.



4.2 Nature of Operations

Black Pearl is a data technology company focused on unlocking the potential of data for SMBs.

The Company builds, acquires and markets cutting-edge, cloud-based services that empower businesses to make data-driven decisions, drive productivity and generate demand.

Black Pearl provides data transparency for businesses of all sizes, helping facilitate better decision-making and directly unlocking new revenue opportunities.

The core of Black Pearl's technology is the private and proprietary platform *Pearl Engine*, which supports the Company's cloud based SaaS applications.

Black Pearl owns and operates 3 SaaS solutions:

- *Black Pearl Mail* – enables businesses to centrally manage their email branding and transform their daily business email into a marketing tool
- *NewOldStamp* – enables businesses to centrally manage their email signatures
- *Pearl Diver* – enables businesses to enhance customer engagement and conversion rates by transforming anonymous website visits into leads and identifies key sales opportunities using multiple data measurements to assess levels of engagement.

4.3 Directors and Senior Management

The directors of Black Pearl are:

- Tim Crown, non-executive chair, associated with Crown BP
- Hugo Fisher, independent non-executive director
- Nick Lissette, executive director
- Mark Osborne, independent non-executive director
- Cherryl Pressley, executive director.

The Black Pearl senior management team consists of:

- Nick Lissette, founder / chief executive officer
- Karen Cargill, chief financial officer
- Cherryl Pressley, chief revenue officer
- Sam Daish, chief technology officer
- Johnson Saju – vice president of operations.

4.4 Capital Structure and Shareholders

Ordinary Shares

Black Pearl currently has 41,130,377 fully paid ordinary shares on issue held by 208 shareholders.

The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 4 August 2023 are set out below.

10 Largest Shareholders		
Shareholder	No. of Shares	%
VTPE Investment, LLC (VTPE)	4,130,028	10.04%
New Zealand Central Securities Depository Limited	3,707,597	9.01%
Crown BP	3,098,129	7.53%
Nick Lissette and Karen Cargill	2,496,955	6.07%
Sir Owen Glenn	2,403,720	5.84%
Shane Bruhns, Georgina Bruhns, Margot Thompson and Scott Burns	1,991,819	4.84%
Allan Smith and Neil Welch	1,798,145	4.37%
New Zealand Depository Nominee	1,317,224	3.20%
Peter Clare	1,081,991	2.63%
Lance Lissette	907,586	2.21%
Subtotal	22,933,368	55.76%
Others (198 shareholders)	18,197,009	44.24%
Total	41,130,377	100.00%

Source: NZX Company Research

Restricted Shares

Black Pearl currently has 526,857 restricted shares on issue, held by the Company's non-executive directors. The restricted shares have an issue price of either \$0.42 or \$1.25 per share but have been issued as fully paid for nil consideration.

The key terms of the restricted shares are:

- they are not transferable
- they may be redeemed by the Company if the director ceases to hold office before a specified date
- they automatically convert into ordinary shares on specified dates.

Warrants

Black Pearl granted 2,500,000 Warrants to Crown BP on 24 November 2022 as consideration for the Promissory Note.

The key terms of the Warrants are:

- each Warrant can be exercised for one ordinary share at an exercise price of \$0.01 per warrant
- an expiry date of 24 May 2028.

The Warrants have not been exercised as at the date of this report.

4.5 Financial Performance

A summary of Black Pearl's recent financial performance is set out below.

Summary of Black Pearl Financial Performance		
	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000
Subscription revenue	727	1,431
Cost of sales	(535)	(730)
Gross profit	192	701
Other revenue	173	180
Operating expenses	(4,928)	(8,052)
Loss before income tax	(4,563)	(7,171)
Net income tax credit	216	270
Loss for the year	(4,347)	(6,901)

Source: Black Pearl 2023 annual report

The Company generates revenue from monthly, quarterly or annual subscriptions charged for its SaaS applications.

Black Pearl had over 3,800 customers as at 31 March 2023, an increase of 496% over 31 March 2022.

Cost of sales consist mainly of hosting and server costs and personnel expenses.

Other revenue consists mainly of Government grants.

Operating expenses consist mainly of personnel expenses, advertising and marketing expenses and consulting costs.

4.6 Financial Position

A summary of Black Pearl's recent financial position is set out below.

Summary of Black Pearl Financial Position		
	As at 31 Mar 22 (Audited) \$000	As at 31 Mar 23 (Audited) \$000
Current assets	1,379	2,135
Non current assets	358	4,554
Total assets	<u>1,737</u>	<u>6,689</u>
Current liabilities	(429)	(3,056)
Non current liabilities	(340)	(1,576)
Total liabilities	<u>(769)</u>	<u>(4,632)</u>
Total equity	<u>968</u>	<u>2,056</u>

Source: Black Pearl 2023 annual report

Black Pearl's main current assets as at 31 March 2023 were cash and cash equivalents of \$1.8 million and trade and other receivables of \$0.3 million.

Non current assets as at 31 March 2023 consisted mainly of goodwill (arising from the acquisition of NewOldStamp) of \$2.9 million and intangible assets (mainly capitalised development costs) of \$1.7 million.

Current liabilities as at 31 March 2023 consisted mainly of the current portion of the Debt of \$1.2 million, trade and other payables of \$0.5 million and contract liabilities of \$0.5 million.

Non current liabilities as at 31 March 2023 consisted mainly of the non current portion of the Debt of \$0.8 million and contingent consideration of \$0.5 million (in respect of the acquisition of NewOldStamp).

The Debt had a carrying value of \$2.0 million as at 31 March 2023, reflecting a \$0.4 million fair value write-down to reflect the below market interest rate of 1% per annum.

Total equity of \$2.1 million as at 31 March 2023 consisted of:

- share capital – \$28.5 million
- reserves – \$3.4 million
- accumulated losses – negative \$29.8 million.

4.7 Cash Flows

A summary of Black Pearl's recent cash flows is set out below.

Summary of Black Pearl Cash Flows		
	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000
Net cash (outflow) from operating activities	(3,795)	(5,208)
Net cash (outflow) from investing activities	(11)	(978)
Net cash received from financing activities	<u>1,405</u>	<u>7,095</u>
Net increase / (decrease) in cash held	(2,401)	909
Foreign currency translation adjustment	(2)	(51)
Opening cash balance	3,304	901
Closing cash balance	<u>901</u>	<u>1,759</u>

Source: Black Pearl 2023 annual report

Financing activities cash flows in the 2022 financial year included \$1.4 million raised from the issue of shares.

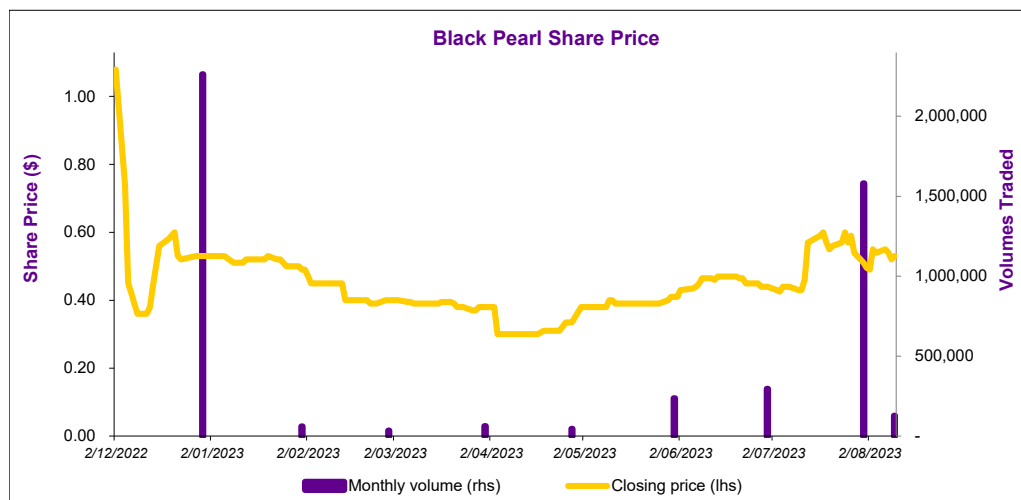
Financing activities cash flows in the 2023 financial year included \$5.0 million raised from the issue of shares and the exercise of employee share options and the \$2.4 million Debt.

Subsequent to 31 March 2023, Black Pearl raised \$2.2 million from the issue of 5,250,407 shares at a price of \$0.42 per share on 26 June 2023.

4.8 Share Price History

Black Pearl's shares listed on the NZX Main Board on 2 December 2022 at a price of \$1.25.

Set out below is a summary of the Company's daily closing share price and monthly volumes traded from 2 December 2022 to 10 August 2023.



Source: NZX Company Research

During the period, Black Pearl's shares have traded between \$0.30 and \$1.08 at a VWAP of \$0.49.

Trading in the Company's shares is relatively thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 10 August 2023 is set out below.

Share Trading up to 10 August 2023					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	0.43	0.60	0.56	1,404	3.4%
3 months	0.39	0.60	0.51	2,226	5.4%
6 months	0.30	0.60	0.50	2,372	5.8%
Since listing	0.30	1.08	0.49	4,704	11.4%

Source: NZX Company Research

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

5.1 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 Black Pearl Listing Profile
- the Master Services Agreement
- the Statement of Work
- the Equity Conversion Agreement
- the Promissory Note and the Promissory Note Amendment
- the Black Pearl annual report for the year ended 31 March 2023
- data in respect of Black Pearl from NZX Company Research and S&P Capital IQ.

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

The Non-associated Directors has confirmed that we have been provided for the purpose of this Appraisal Report with all information relevant to the Fee Cap Amendment and the Equity Conversion 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 needed for the purpose of preparing this Appraisal Report.

In our opinion, the information to be provided by Black Pearl to the Non-associated Shareholders is sufficient to enable the Non-associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Fee Cap Amendment and the Equity Conversion Agreement.

5.2 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 Black Pearl 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 Black Pearl. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

5.3 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. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Black Pearl will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Black Pearl and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

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, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

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 our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of annual meeting issued by Black Pearl 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.

5.4 Indemnity

Black Pearl 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. Black Pearl 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.

6. Qualifications and Expertise, Independence, Declarations and Consents

6.1 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), INFINZ (Cert).

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.

6.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Black Pearl, Mr Crown, Prospect Desk or Crown BP or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Fee Cap Amendment or the Equity Conversion Agreement.

Simmons Corporate Finance has not had any part in the formulation of the Fee Cap Amendment or the Equity Conversion 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 Fee Cap Amendment Resolution or the Equity Conversion Agreement Resolution. We will receive no other benefit from the preparation of this report.

6.3 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.

6.4 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 the Non-associated 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

11 August 2023