

WasteCo Group Limited

Independent Adviser's Report

In Respect of the Issue of \$15 Million of Convertible Notes to Empire Waste Technology Limited and the Conversion of the Convertible Notes into Ordinary Shares

November 2024

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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1. Introduction

1.1 Background

WasteCo Group Limited (**WasteCo** or the **Company**) is a leading South Island waste solution company, processing and diverting liquid and solid waste from landfill. It provides comprehensive solutions for household, commercial, industrial and local authority customers.

WasteCo'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 \$23.8 million as at 22 November 2024. Its audited total equity as at 31 March 2024 was approximately \$16.4 million.

A profile of WasteCo is set out in section 3.

1.2 Issue of Convertible Notes

WasteCo has entered into a *Convertible Note Subscription Agreement* dated 22 November 2024 (the **Subscription Agreement**) with Empire Waste Technology Limited (**Empire**) under which Empire will subscribe for \$15 million of convertible notes (**CNs**) at an issue price of \$1.00 per CN (the **Face Value**) (the **CNs Issue**).

Empire may at its discretion elect to convert all or some of the CNs at a conversion price of \$0.02 for each ordinary share (the **Conversion Price**) at any time up to and including the date which is the end of the 5 year term of the CNs (the **Redemption Date**).

1.3 Empire Waste Technology Limited

Empire is wholly owned by Empire Holdings (Waste) Limited, a company which is ultimately under the control of Paula Herbert and Simon Herbert.

Empire's directors are Paula Herbert and Simon Herbert, who also own Empire Capital Limited (**Empire Capital**).

Empire Capital is an investment vehicle for Mrs Herbert and Mr Herbert. Mrs Herbert and Mr Herbert ultimately control significant commercial property and marina assets as well as investments in certain technology and other business operations.

We understand that none of Empire, Empire Capital, Mrs Herbert or Mr Herbert currently hold any shares in WasteCo at present.

1.4 Impact on Shareholding Levels

The Company's shareholders not associated with Empire (the **Non-associated Shareholders**) currently collectively hold 100% of the Company's 848,372,765 ordinary shares on issue.

If all 15,000,000 CNs issued to Empire under the CNs Issue are converted into 750,000,000 ordinary shares (the **Empire Allotment**), then:

- Empire will hold 46.92% of the Company's shares
- the Non-associated Shareholders will collectively hold 53.08% of the Company's shares.

Maximum Impact of the Empire Allotment on Shareholding Levels					
	Current		Empire Allotment	Post the Empire Allotment	
	Shares	%	Shares	Shares	%
Empire	-	0.00%	750,000,000	750,000,000	46.92%
Non-associated Shareholders	848,372,765	100.00%	-	848,372,765	53.08%
Total	<u>848,372,765</u>	<u>100.00%</u>	<u>750,000,000</u>	<u>1,598,372,765</u>	<u>100.00%</u>

1.5 Summary of Opinion

Our evaluation of the merits of the Empire Allotment as required under the Takeovers Code (the **Code**) is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the Empire Allotment outweigh the negative aspects from the perspective of the Non-associated Shareholders.

1.6 Special Meeting

The Company's shareholders will vote at the Company's special meeting of shareholders on 13 December 2024 on an ordinary resolution in respect of the CNs Issue and the Empire Allotment (resolution 1 - the **Allotment Resolution**).

The Allotment Resolution is an ordinary resolution which is passed by a simple majority of votes of those shareholders entitled to vote and who vote on the resolutions.

If Empire holds any shares in WasteCo at the date of the special meeting, neither it nor any of its associates (as defined in the Code) will be permitted to vote on the Allotment Resolution.

If the Allotment Resolution is approved, the Company's shareholders will also vote on an ordinary resolution in respect of a share purchase plan (the **SPP**) to be offered in December 2024 to the Company's shareholders to raise up to \$5 million (resolution 2).

1.7 Regulatory Requirements

WasteCo is a code company as defined by the Code and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls no voting rights or less than 20% of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company
- a person who holds or controls 20% or more of the voting rights in a code company from holding or controlling an increased percentage of the voting rights in the code company

unless done in compliance with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person to become a holder or controller of an increased percentage of voting rights by an allotment of voting securities in the code company if the allotment is approved by an ordinary resolution of the code company (on which neither that person, nor any of its associates, may vote).

If Empire converts all or some of its CNs into ordinary shares, it will increase its control of the voting rights in WasteCo from nil to up to 46.92%.

Accordingly, in accordance with the Code, the Non-associated Shareholders will vote at the Company's special meeting on the Allotment Resolution in accordance with the Code.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

1.8 Purpose of the Report

The Company's board of directors (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Empire Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 3 September 2024 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Allotment Resolution.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Empire Allotment

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Empire Allotment, having regard to the interests of the Non-associated Shareholders.

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

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers* dated 1 November 2023
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Empire Allotment should focus on:

- the rationale for the CNs Issue and the Empire Allotment
- the terms and conditions of the CNs Issue
- the impact of the CNs Issue and the Empire Allotment on WasteCo's financial position
- the impact of the Empire Allotment on the control of the Company
- the dilutionary impact of the Empire Allotment
- the impact of the CNs Issue and the Empire Allotment on WasteCo's share price
- the benefits and disadvantages to the Non-associated Shareholders and Empire of the CNs Issue and the Empire Allotment
- the likelihood of the Allotment Resolution being approved
- the implications if the Allotment 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 Summary of the Evaluation of the Merits of the Empire Allotment

Our evaluation of the merits of the Empire Allotment is set out in detail in sections 2.3 to 2.14.

The CNs Issue will provide \$15 million of funding to WasteCo, which the Board considers sufficient to fund the Company's proposed acquisition of 100% of the shares of Civic Waste Limited (**Civic**) for \$9.0 million, together with an earnout component (the **Civic Acquisition**) as well as providing growth capital for the Company.

The Empire Allotment will enable Empire to convert its CNs into ordinary shares, in which case WasteCo will not need to redeem those CNs in cash when they mature at the end of the 5 year term.

Empire currently does not hold any of the Company's shares on issue. Following the Empire Allotment, Empire will hold up to 46.92% of the Company's shares on issue (depending on how many CNs are converted into ordinary shares).

In summary, the key positive aspects of the Empire Allotment are:

- the rationale for the CNs Issue is sound. The CNs Issue will provide \$15 million of capital to fund the Civic Acquisition as well as future acquisition opportunities
- the rationale for the Empire Allotment is sound. It will preserve WasteCo's cash resources by converting interest bearing debt (in the form of the CNs) into equity
- the terms of the CNs Issue are reasonable:
 - the 6.0% coupon is favourable to the Company as it is lower than what we expect WasteCo would have to pay on a \$15 million subordinated loan
 - the Conversion Price of \$0.02 per ordinary share is slightly below the Company's current share price. It is equivalent to the issue price of the SPP that WasteCo plans to offer to the Non-associated Shareholders (subject to shareholder approval) to raise up to \$5 million in conjunction with the CNs Issue and the Civic Acquisition
 - we assess the value of each \$1 CN to be in the range of \$0.985 to \$1.094
- the CNs Issue will have a positive impact on the Company's financial position, raising \$15 million of interest bearing debt which may be partially or fully converted into equity (at Empire's discretion) via the Empire Allotment.

In summary, the key negative aspects of the Empire Allotment are:

- Empire's shareholding in WasteCo will be up to 46.92% following the Empire Allotment (depending on the number of CNs it converts into ordinary shares), resulting in Empire holding a significant degree of influence over the outcome of shareholder voting. Furthermore, WasteCo has agreed not to undertake any Material Transaction (as defined in the NZX Listing Rules) without the written consent of Empire
- a condition of the Subscription Agreement is that the composition of the Board is acceptable to Empire from the time of its subscription for the CNs. Empire will also have the right to appoint 2 (out of 5) directors to the Board as well as the right to approve the appointment of an independent chair of the Board, giving it a degree of influence over the Board

- the Empire Allotment will dilute Non-associated Shareholders' proportionate shareholdings in the Company by up to 46.9% (if all 15,000,000 CNs are converted into ordinary shares) prior to the issue of any shares under the SPP. Non-associated Shareholders will be able to reduce this dilutionary impact to some extent by participating in the SPP
- the attraction of WasteCo as a takeover target may diminish to a degree.

The Empire Allotment is unlikely to have any significant impact in the near term on:

- WasteCo's share price as the Conversion Price is close to (but slightly below) the current share price
- the liquidity of WasteCo's shares as trading in the Company's shares is extremely thin.

If the Allotment Resolution is not approved, then neither the CNs Issue nor the Civic Acquisition can proceed. WasteCo would need to seek alternative funds to pursue other growth opportunities.

There are a number of positive and negative features associated with the Empire Allotment. In our view, when the Non-associated Shareholders are evaluating the merits of the Empire Allotment, they need to carefully consider whether the negative aspects of the Empire Allotment, including the level of control that Empire will hold over the Company and the dilutionary impact, could justify voting against the Allotment Resolution with the outcome that neither the CNs Issue nor the Civic Acquisition can proceed and the Company would need to seek alternative sources of capital in order to pursue other growth opportunities.

In our opinion, after having regard to all relevant factors, the positive aspects of the Empire Allotment outweigh the negative aspects from the perspective of the Non-associated Shareholders.

2.3 Rationale for the CNs Issue and the Empire Allotment

WasteCo had cash and cash equivalents of \$1.8 million, a bank overdraft of \$2.3 million and \$31.5 million of borrowings as at 31 March 2024.

The intended use of funds raised under the CNs Issue is:

- to fund the Civic Acquisition that WasteCo intends to undertake in December 2024 at a cost of \$9.0 million
- to provide growth capital for the Company, including, but not limited to, funding future acquisition opportunities.

We consider the rationale for the CNs Issue to be sound. The CNs will provide \$15 million of capital to fund the Civic Acquisition and other potential acquisitions in the future.

We consider the rationale for the Empire Allotment to be sound as it will preserve the Company's cash resources by converting interest bearing debt (in the form of the CNs) into equity.

2.4 Terms of the CNs Issue

Size of the CNs Issue

We are advised that the \$15 million of CNs was based on the Board's assessment of the capital required to fund the Civic Acquisition and future acquisition opportunities in the near term in conjunction with the capital raised from the SPP.

CNs

The principal terms of the CNs are set out in the Explanatory Note of the notice of special meeting and are summarised below:

- a total commitment of \$15 million
- a Face Value of \$1 per CN
- a term of 5 years
- a Redemption Date of 15 December 2029 (assuming the CNs are subscribed for on 16 December 2024)
- an interest coupon of 6.0% per annum, payable monthly in arrears
- Empire may elect to convert some or all of the CNs into ordinary shares at any time up to or on the Redemption Date at the Conversion Price of \$0.02 per share
- if the CNs are not converted into ordinary shares on the Redemption Date, WasteCo must repay the Face Value of the CNs in cash
- Empire may transfer its CNs subject to the approval of WasteCo (which is not to be unreasonably withheld or delayed)
- the CNs are secured by a second-ranking general security deed over the present and after acquired property of WasteCo (the **Empire GSD**). The Empire GSD shall rank behind Kiwibank Limited's (**Kiwibank**) existing general security agreement
- WasteCo has agreed that, except in relation to the SPP, it will use its best endeavours to offer Empire the right to participate in future capital raisings by the Company to the extent that, immediately following the capital raising, Empire could maintain the same percentage holding it would hold on conversion of the CNs (had it converted the CNs immediately prior to that capital raise), subject to compliance with all applicable laws. To give effect to this provision, unless Empire agrees otherwise in writing, WasteCo will use its best endeavours to seek all necessary consents and authorisations to permit Empire to participate in the future capital raising, including to seek an exemption from the Takeovers Panel or to seek shareholder approval
- the CNs Issue is conditional on:
 - WasteCo obtaining any required approvals of its shareholders in respect of the CNs Issue, the Empire Allotment and the grant of the Empire GSD
 - the Civic Acquisition becoming unconditional
 - Kiwibank agreeing to the grant of the Empire GSD
 - the composition of the Board being acceptable to Empire

- no material adverse change (as detailed in the Explanatory Notes) arising prior to Empire subscribing for the CNs.

Interest Rate

The interest rate payable on the CNs is 6.0% per annum, paid monthly in arrears.

WasteCo is currently paying interest rates of 9.19% and 9.25% on its long term finance facilities and 12.1% on its overdraft facility provided by Kiwibank.

We consider the 6.0% per annum interest rate payable on the CNs to be favourable to the Non-associated Shareholders as a company with a similar financial position to WasteCo issuing a subordinated bond would likely have to offer a coupon in the vicinity of at least 13% to 15%.

Conversion Price

A summary of WasteCo's closing share price since 6 December 2022 is set out in section 3.10.

The Conversion Price of \$0.02 is slightly below the most recent trading price of WasteCo's shares on the NZX Main Board:

- the shares last traded on 22 November 2024 at \$0.028
- the one month volume weighted average share price (**VWAP**) up to 22 November 2024 was \$0.029
- the 3 months VWAP up to 22 November 2024 was \$0.031.

However, it should be noted that trading in the Company's shares is extremely thin, with only 2.6% of the Company's shares trading in the last year.

In conjunction with the CNs Issue and the Civic Acquisition, WasteCo plans to offer the SPP to all existing shareholders (subject to shareholder approval). The planned SPP will allow Non-associated Shareholders to acquire additional shares in the Company at the same issue price of \$0.02 per share as per the Conversion Price.

Individual shareholders will be able to apply for up to \$50,000 in new shares in the planned SPP.

The SPP aims to raise up to \$5 million in fresh equity.

Valuation

As set out in section 4, we assess the value of each \$1 CN to be in the range of \$0.985 to \$1.094.

Conclusion

The Face Value of \$1 sits within the assessed value range of \$0.985 to \$1.094 per CN. Accordingly, we consider the terms of the CNs Issue to be fair, from a financial point of view, to the Non-associated Shareholders.

2.5 Alternatives to the CNs Issue

As an alternative to the CNs Issue, WasteCo could have considered different forms of raising capital including:

- undertaking a pro rata rights issue to all shareholders
- making a series of share placements to other investors
- the sale of assets
- seeking alternative debt funding.

We are advised by the Board that it considered a rights issue, share placements and further debt funding as alternative capital raising options but concluded that none of those options provided certainty that the required level of capital would be raised.

We are of the view that the alternative funding sources are not realistic alternatives at this point in time. The \$15 million of capital to be raised under the CNs Issue represents approximately 63% of WasteCo's current market capitalisation. Such a proportionately large capital raising is unlikely to be successful via a rights issue (unless it was fully underwritten) or via a series of placements of shares. Given the nature of the Company's asset base, we do not consider that it could realise any level of significant capital from the sale of assets. WasteCo's current earnings levels and finance facilities already provided by Kiwibank restrict the Company from accessing any additional significant levels of external debt funding on commercially viable terms.

2.6 Impact on Financial Position

A summary of WasteCo's recent financial position is set out in section 3.8.

For illustrative purposes, the table below shows WasteCo's financial position assuming the \$15 million CNs Issue is raised from Empire and the Empire Allotment occurred on 31 March 2024.

Illustrative Financial Impact of the CNs Issue and the Empire Allotment				
	As at 31 March 24 \$000	CNs Issue \$000	Empire Allotment \$000	Post the Empire Allotment \$000
Current assets	9,672	15,000	-	24,672
Non current assets	57,987	-	-	57,987
Total assets	67,659	15,000	-	82,659
Current liabilities	(17,661)	-	-	(17,661)
Non current liabilities	(33,611)	(15,000)	15,000 ¹	(33,611)
Total liabilities	(51,272)	(15,000)	15,000	(51,272)
Total equity	16,387	-	15,000 ¹	31,387
No. of shares (000)	848,373	-	750,000 ²	1,598,373
Net assets per share	\$0.019		\$0.020	\$0.020
Net tangible assets (NTA) per share	\$0.012		\$0.020	\$0.016

1 Assumes the maximum amount of the CNs Issue of \$15 million is converted into ordinary shares
2 Based on the Conversion Price of \$0.02 per ordinary share

Source: WasteCo 2024 annual report

The illustrative financial position shows that following the Empire Allotment, WasteCo's total equity would increase by \$15 million from approximately \$16.4 million to approximately \$31.4 million.

Net assets per share would increase by 2% from \$0.019 to \$0.020 per share and NTA per share of \$0.012 would increase by 31% to \$0.016 (due to the Conversion Price being \$0.02 per share).

2.7 Impact on Control

Share Capital and Shareholders

WasteCo currently has 848,372,765 shares on issue held by 1,444 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 8 November 2024 are set out in section 3.6.

WasteCo currently has 4 shareholders holding more than 5% of the Company's shares:

- Cullinane Steel Trustees (2003) Limited, Laurence Redmayne and Samantha Redmayne – 19.88%
- C & F Trustees 35776 Limited, Carl Storm and Dawn Storm – 18.62%
- Shane Edmond – 6.21%
- Glendarvie Holdings Limited – 5.94%.

The 10 largest shareholders collectively hold 69.49% of the Company's shares.

Shareholding Voting

Empire currently holds no shares in WasteCo. It will control up to 46.92% of the Company's voting rights following the Empire Allotment. Empire can convert all or some of the CNs at any time up to the Redemption Date, which is 5 years from the date of subscription for the CNs. Accordingly, the time at which Empire may hold shares in the Company is uncertain over the next 5 years.

At the maximum level of 46.92% of voting rights, Empire's ability to influence shareholding voting will be relatively significant as it will be able to singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders). However, Empire will technically not be able to singlehandedly pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) or pass special resolutions.

We note that while the control of 46.92% of the voting rights is technically not sufficient to singlehandedly pass or block an ordinary resolution, it most probably can as a number of shareholders in widely held companies (such as WasteCo with over 1,400 shareholders) tend not to vote on resolutions and hence the relative weight of the 46.92% interest increases.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the NZX Listing Rules and the Companies Act 1993 (eg if the shareholder is precluded from voting on the resolution because it is a party to the transaction which the resolution relates to).

We note that WasteCo has agreed not to undertake any Material Transaction (as defined in the NZX Listing Rules) without the written consent of Empire.

Ability to Creep

Following the Empire Allotment, Empire will not be able to utilise the *creep provisions* of Rule 7(e) of the Code. The *creep provisions* enable entities that hold more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum without the need for shareholder approval.

Board Control

As set out in section 3.5, the Company currently has 3 directors, none of whom are deemed to be an associate of Empire.

A condition of the Subscription Agreement is that the composition of the Board is acceptable to Empire from the time of its subscription for the CNs.

The Subscription Agreement grants Empire the right to appoint 2 out of 5 directors to the Board as well as the right to approve the appointment of an independent chair of the Board.

Accordingly, the CNs Issue will provide Empire with a degree of influence at Board level. We note that Empire will hold this level of Board control at the date of the CNs Issue and it is not affected by whether it converts any CNs under the Empire Allotment.

Operations

We are advised by the Board that Empire's influence over WasteCo's operations will be predominantly through its Board representation and that the Empire Allotment will not change Empire's level of influence over the Company's operations.

2.8 Dilutionary Impact

The Empire Allotment will result in the shareholdings of Non-associated Shareholders being diluted by up to 46.9%, depending on the number of CNs that Empire converts into ordinary shares (prior to the issue of any shares under the SPP).

Non-associated Shareholders will be able to reduce this dilutionary impact to some extent by participating in the SPP (which is subject to shareholder approval).

While the potential dilutionary impact is 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 2.4, we are of the view that the terms of the CNs Issue are fair to the Non-associated Shareholders from a financial point of view and therefore should not result in any material transfer of value from the Non-associated Shareholders to Empire.

2.9 Impact on Share Price and Liquidity

Share Price

A summary of WasteCo's closing share price since 6 December 2022 is set out in section 3.10.

The ordinary shares issued under the Empire Allotment will be issued at the Conversion Price of \$0.02 per share. As discussed in section 2.4, the Conversion Price is slightly below WasteCo's current share price.

In our view, the CNs Issue and the Empire Allotment are unlikely to have any significant impact on the Company's share price in the near term. However, on the basis that the capital raised from the CNs Issue is being used to invest in WasteCo's growth initiatives and / or if WasteCo undertakes a change of control transaction, this may result in an appreciation in the Company's share price over the longer term.

Liquidity

The analysis in section 3.10 shows that WasteCo's shares are extremely thinly traded on the NZX Main Board, with only 2.6% of the shares being traded in the past year.

The Empire Allotment will not improve the liquidity of the Company's shares in the near term as the number of shares held by the Non-associated Shareholders will not change.

However, should Empire seek to dispose of some of its WasteCo shares following the Empire Allotment, this may result in increased trading in the Company's shares, thereby possibly improving liquidity. We note however that the Redemption Date is some 5 years away.

2.10 Key Benefits to Empire

The Empire Allotment provides Empire with the opportunity to increase its shareholding in WasteCo from nil at present to up to 46.92% by converting up to \$15 million of interest bearing debt (in the form of the CNs) into ordinary shares at any time up to or on the Redemption Date.

2.11 Disadvantages to Empire

The key issues and risks that are likely to impact upon the business operations of WasteCo are summarised in section 3.4. As Empire's ownership in WasteCo increases, so does its exposure to these risks.

2.12 Other Issues

Benefits to WasteCo of Empire as a Cornerstone Shareholder

The CNs Issue and the Empire Allotment will position Empire as an important cornerstone strategic investor in the Company, signalling its confidence in the future prospects of WasteCo.

Non-associated Shareholders Approval is Required

Pursuant to the Code, the Non-associated Shareholders must approve by ordinary resolution the Empire Allotment.

The CNs Issue and the Empire Allotment will not proceed unless the Allotment Resolution is approved.

May Reduce the Likelihood of a Takeover Offer to a Degree

If the Empire Allotment is approved, Empire will not be able to increase the level of its shareholding unless it complies with the provisions of the Code. Empire will only be able to acquire more shares in the Company prior to the conversion of all of the CNs if:

- it enters into an approved scheme of arrangement with WasteCo
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding Empire
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding Empire.

If Empire holds up to 46.92% of the Company's shares, this may reduce the likelihood of a takeover offer for the Company from Empire to a degree as it may consider that it has sufficient control over the Company.

It is possible that if Empire did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already had a degree of control of the Company and hence does not need to pay a control premium of any significance.

Empire's shareholding of up to 46.92% may also reduce the attraction of WasteCo as a takeover target to other parties to a degree, as any bidder looking to fully or partially take over the Company would need to ensure that Empire would accept its offer.

In the event that a person (other than Empire) acquires control of WasteCo (defined as direct or indirect ownership of at least 50% of WasteCo or the right to appoint at least 50% of the Board) or the whole (or substantially the whole) of the Company's assets, Empire is entitled to require WasteCo to redeem all of its CNs at their Face Value.

2.13 Likelihood of the Allotment Resolution Being Approved

If Empire or any of its associates hold any shares in WasteCo at the date of the special meeting, neither it nor any of its associates will be permitted to vote on the Allotment Resolution. Accordingly, the outcome of the Allotment Resolution will be determined by the voting of the Non-associated Shareholders.

The Board has unanimously recommended the approval of the Allotment Resolution. Each director has represented to WasteCo that he will vote or procure the voting of all shares in the Company held or controlled by the director or any of their associates in favour of the Allotment Resolution. The directors collectively have interests in 29.97% of the Company's shares.

The Company's top 10 shareholders collectively hold 69.49% of the Company's shares and will therefore significantly influence the outcome of the voting on the Allotment Resolution if they vote.

We are not aware of how these major shareholders – other than the directors – will vote in respect of the resolutions.

2.14 Implications of the Allotment Resolution not Being Approved

If the Allotment Resolution is not approved, then neither the CNs Issue nor the Civic Acquisition can proceed. WasteCo will not gain access to \$15 million of capital and would need to seek alternative funds to pursue other growth opportunities.

The non-approval of the Allotment Resolution will likely have negative implications for future capital raising initiatives as potential investors may be hesitant to invest in the Company – especially if shareholder approval is required. As discussed in section 2.5, we consider the alternative capital raising options for WasteCo to be limited if a comparable amount of capital needs to be raised within a relatively short timeframe.

2.15 Voting For or Against the Allotment Resolution

Voting for or against the Allotment 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 WasteCo Group Limited

3.1 Background

The Company was incorporated on 24 November 2010 as Rec No.1 Limited. It subsequently changed its name to:

- Snakk Media Limited (**Snakk**) on 18 July 2011
- Goodwood Capital Limited on 20 October 2020
- WasteCo Group Limited on 5 December 2022.

Snakk provided mobile phone enabled promotions and marketing services in Australia, New Zealand and Singapore. It had 2 wholly owned subsidiary companies:

- Snakk Media Pty Limited (**Snakk Aust**)
- Snakk Media Pte. Limited (**Snakk Sing**).

Snakk's shares were initially listed on the Alternative Market operated by NZX (the **NZAX**) on 6 March 2013.

Snakk ceased operations in December 2018:

- Snakk was placed into voluntary administration on 7 February 2019 and into liquidation on 14 March 2019
- Snakk Aust was placed into voluntary administration on 10 December 2018 and deregistered on 15 December 2020
- Snakk Sing ceased operations in 2019 and was removed from the Singapore Companies Register on 16 December 2020.

The Company was restored from liquidation on 9 October 2020 by order of the High Court and the restoration was completed on 19 October 2020.

The Company was a shell company listed on the NZX Main Board until it undertook a reverse listing on 5 December 2022 by acquiring WasteCo for \$29.2 million in exchange for the issue of 584,000,000 ordinary shares issued at \$0.05 per share (the **Reverse Listing**).

3.2 Nature of Operations

The WasteCo group was formed by Carl Storm and James Redmayne and commenced operations in 2013.

WasteCo is a leading South Island waste solution company, processing and diverting liquid and solid waste from landfill.

It provides comprehensive solutions for household, commercial, industrial and local authority customers.

WasteCo is New Zealand's only diamond certified Toitū Enviromark waste solutions provider and delivers outcomes that ensure its customers are at the leading edge of the sustainability frontier.

The Company provides waste and sorting options as well as waste remediation, sweeping and industrial cleaning services – all delivered using leading edge technology and highly trained customer-focussed staff.

Environmental Services

- waste collection via front load bins, hook bins, skip bins and wheelie bins from both commercial and private customers
- a large gantry collection operation in Christchurch
- road sweeping for councils and commercial customers. WasteCo operates an extensive sweeping operation in the South Island
- waste sorting and diversion. WasteCo operates a 3,600m² dedicated sorting facility in Christchurch with a strong focus on diversion from landfill
- a new specialised facility for the collection and treatment of medical and quarantine waste.

Industrial Services

- high pressure water blasting, urgent spill response services, vacuum loading, septic tank cleaning and portaloos. These services are offered on a 24/7/365 basis. WasteCo is one of the largest providers of industrial services in the South Island
- port services - WasteCo provides maintenance, cleaning and auxiliary services to several ports and shipping companies in the South Island.

WasteCo's activities are domiciled in the South Island, primarily in:

- Nelson
- Christchurch
- Ashburton
- Timaru
- Oamaru
- Dunedin
- Balclutha
- Cromwell
- Invercargill.

During the 2024 financial year, WasteCo acquired 3 businesses:

- Cleanways and related businesses Enviro South and Wastech Services
- Bond Contracts
- Central Suction Cleaners.

3.3 Corporate Strategy

The 4 pillars to WasteCo's strategy are:

- focus on the Company's team, culture and health and safety
- acquisitions in its core areas
- optimise the current business and introduce operational improvements
- reducing the Company's carbon emissions.

3.4 Key Business Risks

The key business risks that WasteCo faces include:

- reliance on certain key personnel. Failure to retain any of the key personnel could adversely affect WasteCo's operations
- reliance on significant contracts. There is no guarantee that the existing significant business contracts will be renewed at the end of the contract terms, or if they do, that these contracts will continue to be successful
- the waste, refuse and industrial services sectors in New Zealand are highly competitive. One or more of WasteCo's competitors could seek to offer comparable services at lower prices and / or which are preferred by the market
- management of growth opportunities, which if not successfully managed could lead to adverse operational and financial performance
- WasteCo may fail to successfully execute its expansion strategy into new geographical markets and new verticals
- a large part of WasteCo's business comprises the collection, recycling and disposal of waste and refuse, which may be subject to new regulations. There is also risk regarding potential government intervention in the manner in which certain recycling / diversion is subsidised
- WasteCo's operations are subject to significant environment regulation and any non compliance with these requirements may have a material adverse impact on WasteCo's operations from both a reputational perspective and from an economic perspective through the imposition of fines or restrictions on WasteCo's commercial operations
- WasteCo operates heavy machinery, often on public roads and industrial sites, giving rise to the risk of injury or even death to the WasteCo staff who operate the equipment or to members of the public or third party contractors in the event of an accident occurring.

3.5 Directors and Senior Management

The Board consists of 3 directors:

- Shane Edmond, independent chair
- Roger Gower, independent director
- James Redmayne, non-executive director.

Carl Storm resigned as an executive director on 16 August 2024 and Angus Cooper resigned as an independent director on 31 October 2024.

The Company's senior management team consists of:

- David Peterson, chief executive officer
- Nigel Franklin, chief financial officer
- Chris Brown, chief operating officer
- Chanelle Sefont, head of people, safety and wellbeing
- Luke Brown, chief sales officer.

3.6 Capital Structure and Shareholders

WasteCo currently has 848,372,765 fully paid ordinary shares on issue held by 1,444 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 8 November 2024 are set out below.

WasteCo's 10 Largest Shareholders		
Shareholder	No. of Shares	%
Cullinane Steel Trustees (2003) Limited, Laurence Redmayne and Samantha Redmayne	168,640,923	19.88%
C & F Trustees 35776 Limited, Carl Storm and Dawn Storm	158,004,000	18.62%
Shane Edmond	52,667,692	6.21%
Glendarvie Holdings Limited (Glendarvie)	50,400,000	5.94%
Lloyd Phillips, Wayne Phillips and Craig Phillips	31,850,353	3.75%
Forsyth Barr Custodians Limited	28,460,887	3.35%
Malcolm Bailey	27,216,000	3.21%
Robert Baan and Rowena Baan-Mathias	25,331,842	2.99%
New Zealand Central Securities Depository Limited	24,081,435	2.84%
Ashvegas Limited (Ashvegas)	22,867,692	2.70%
Top 10 shareholders	589,520,824	69.49%
Others (1,434 shareholders)	258,851,941	30.51%
Total	<u>848,372,765</u>	<u>100.00%</u>

Source: NZX Company Research

The 3 largest shareholders and Ashvegas are associated with current or recently resigned directors of the Company.

Glendarvie is owned by Robert Baan and Rowena Baan-Mathias.

3.7 Financial Performance

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

Summary of WasteCo Financial Performance			
	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000	Year to 31 Mar 24 (Audited) \$000
Revenue	18,777	34,392	48,233
Other income	713	98	99
Expenses	(18,661)	(32,941)	(51,120)
Profit / (loss) from operations	829	1,549	(2,788)
Other items	(971)	(3,705)	(2,955)
(Loss) before income tax	(142)	(2,156)	(5,743)
Income tax benefit	138	236	1,608
(Loss) for the year	<u>(4)</u>	<u>(1,920)</u>	<u>(4,135)</u>

Source: WasteCo audited financial statements

WasteCo's revenue is derived from:

- waste collection and recycling (53% of 2024 financial year revenue)
- sweeping services (23% of 2024 financial year revenue)
- industrial cleaning services (24% of 2024 financial revenue).

Revenue grew by 40% to \$48.2 million in the 2024 financial year through a combination of organic business growth and acquisition growth.

Expenses consist mainly of:

- employee benefits expenses (42% of 2024 financial year expenses)
- collection, recycling and waste disposal expenses (18% of 2024 financial year expenses)
- fleet operating expenses (13% of 2024 financial year expenses)
- depreciation and amortisation (12% of 2024 financial year expenses).

Non-recurring costs of approximately \$1 million were incurred in the 2024 financial year in respect of the 3 acquisitions completed, capital raising costs to finance the acquisitions and restructuring costs.

3.8 Financial Position

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

Summary of WasteCo Financial Position			
	As at 31 Mar 22 (Audited) \$000	As at 31 Mar 23 (Audited) \$000	As at 31 Mar 24 (Audited) \$000
Current assets	4,467	6,241	9,672
Non current assets	29,978	36,873	57,987
Total assets	<u>34,445</u>	<u>43,114</u>	<u>67,659</u>
Current liabilities	(14,676)	(11,686)	(17,661)
Non current liabilities	(17,486)	(21,569)	(33,611)
Total liabilities	<u>(32,162)</u>	<u>(33,255)</u>	<u>(51,272)</u>
Total equity	<u>2,283</u>	<u>9,859</u>	<u>16,387</u>

Source: WasteCo audited financial statements

WasteCo's current assets as at 31 March 2024 consisted mainly of trade receivables, cash at bank and prepayments.

Non current assets as at 31 March 2024 consisted of property, plant and equipment (mainly vehicles and plant and equipment), right-of-use assets (leased premises and vehicles) and intangible assets (mainly customer contracts and goodwill).

Current liabilities as at 31 March 2024 comprised trade and other payables and lease liabilities.

Non current liabilities as at 31 March 2024 represented borrowings and lease liabilities.

The Company had equity of \$16.4 million as at 31 March 2024, comprising:

- share capital – \$19.9 million
- reserves – \$0.9 million
- accumulated losses – negative \$4.4 million.

3.9 Cash Flows

A summary of WasteCo’s recent cash flows is set out below.

Summary of WasteCo Cash Flows			
	Year to 31 Mar 22 (Audited) \$000	Year to 31 Mar 23 (Audited) \$000	Year to 31 Mar 24 (Audited) \$000
Net cash inflow from operating activities	3,744	3,587	1,197
Net cash (outflow) from investing activities	(12,107)	(13,009)	(16,754)
Net cash inflow from financing activities	<u>8,445</u>	<u>9,597</u>	<u>14,095</u>
Net increase / (decrease) in cash held	82	175	(1,462)
Opening cash balance	<u>616</u>	<u>698</u>	<u>873</u>
Closing cash balance	<u><u>698</u></u>	<u><u>873</u></u>	<u><u>(589)</u></u>

Source: WasteCo audited financial statements

WasteCo has recorded cash positive inflows from its operations over the past 3 financial years.

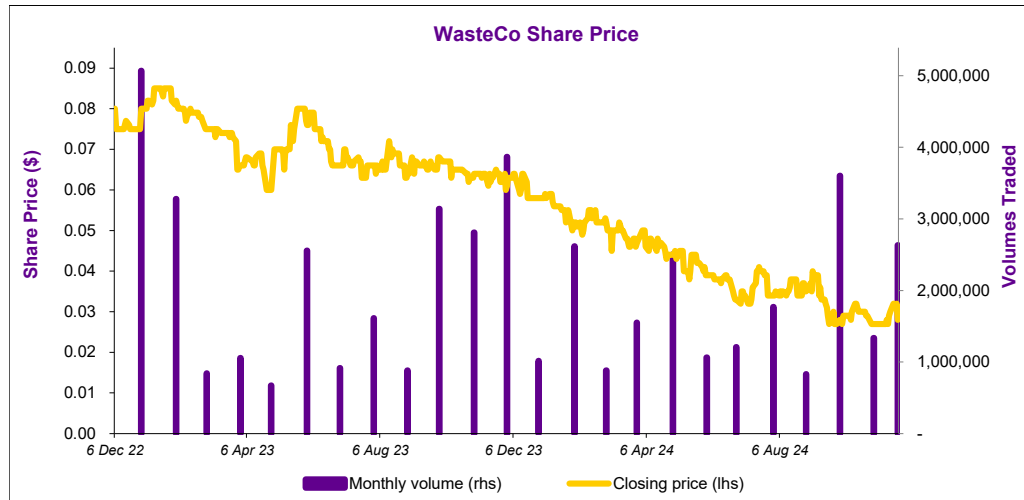
Investing cash outflows have mainly been in respect of the acquisition of fixed assets and the acquisition of businesses.

The Company has funded its investing activities by raising equity and debt:

- approximately \$9.5 million in the 2022 financial year from borrowings
- approximately \$8.3 million in the 2023 financial year from borrowings and \$4.0 million from the issue of approximately 90.6 million ordinary shares
- approximately \$10.7 million in the 2024 financial year from borrowings and approximately \$7.8 million (net of costs) from the issue of approximately 160.4 million ordinary shares.

3.10 Share Price History

Set out below is a summary of WasteCo's daily closing share price and monthly volumes of shares traded from 6 December 2022 (the day after the Reverse Listing was approved) up to 22 November 2024.



Source: NZX Company Research

During the period, WasteCo's shares have traded between \$0.027 and \$0.085 at a VWAP of \$0.058.

An analysis of WasteCo's recent VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 22 November 2024 is set out below.

Share Trading up to 22 November 2024					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	0.027	0.032	0.029	3,072	0.4%
3 months	0.027	0.040	0.031	7,758	0.9%
6 months	0.027	0.042	0.033	11,950	1.4%
12 months	0.027	0.064	0.042	21,814	2.6%

Source: NZX Company Research

The analysis highlights the thin trading in the Company's shares. Only 2.6% of WasteCo's shares have traded in the past year on 236 days.

4. Valuation of the Convertible Notes

4.1 CNs Methodology and Valuation Approach

The CNs represent a WasteCo security which are a combination of a bond and an embedded option:

- the bond component carries an interest coupon of 6.0% per annum
- the embedded option component provides the noteholder with the ability to benefit if the share price of WasteCo is above \$0.02 when the CNs are converted.

To assess the value of the CNs, it is necessary to assess the value of the bond component and the embedded option component.

Valuation of Bonds

The value of the bond is a function of the interest rate on the bond and the value of the principal returned.

Each \$1 CN carries a 6.0% coupon and repayment of \$1 of principal when it is repaid.

A required rate of return higher than the coupon will result in a bond value lower than the principal and vice versa.

In our view, the required rate of return on a “plain vanilla” subordinated bond offered by WasteCo at this point in time would be in the range of 13.0% to 15.0% per annum.

Valuation of Options

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options (which can be exercised at any time during their life, as opposed to European options which can only be exercised on one particular day) and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of an American option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

The value derived represents the value of options over existing shares. The CNs are in effect warrants and hence WasteCo will issue new ordinary shares when the CNs are converted. Accordingly, an adjustment must be made to the value derived from the Black-Scholes Formula to take into account the dilutionary effect of the conversion of the CNs.

4.2 Valuation of the Bond Component of the CNs

Valuation Parameters

The key variables applied in our assessment of the value of the bond component of the CNs are:

- valuation date – 16 December 2024, being the expected date that the CNs will be issued
- coupon – 6.0% per annum
- repayment date – 15 December 2029, being the expected Redemption Date
- principal repayment – \$1
- required yield – 13.0% to 15.0% per annum.

Conclusion

Based on the above, we assess the fair value of the bond component of the CNs to be in the range of \$0.685 to \$0.744 per \$1 of Face Value.

4.3 Valuation of the Option Component of the CNs

Valuation Parameters

Each \$1 of CN can be converted into 50 ordinary shares at the Conversion Price of \$0.02.

The key variables applied in our assessment of the value of the embedded option component of the CNs are:

- valuation date – 16 December 2024, being the expected date that the CNs will be issued
- exercise price – \$0.02 per share, being the Conversion Price
- the risk free rate – 4.3%, based on the current yield on New Zealand Government May 2030 bonds
- the current market value of WasteCo shares – \$0.029, being the one month VWAP up to 22 November 2024
- volatility – 40% to 50%, based on the observed volatility levels of movements in WasteCo's share price and for overseas comparable companies
- the time to expiry – 15 December 2029, being the expected Redemption Date
- expected distributions – nil, based on the Company's recent dividend history.

Conclusion

Based on the above, we assess the fair value of an embedded option to be in the range of \$0.006 to \$0.007.

4.4 Valuation of the CNs

We assess the fair value of each \$1 CN to be in the range of \$0.985 to \$1.094.

Valuation of CNs		
	Low \$	High \$
Value of bond component of \$1 CN	0.685	0.744
Value per option	0.006	0.007
Number of options per \$1 CN	x 50	x 50
Value of option component of \$1 CN	0.300	0.350
Fair value of \$1 CN	<u>0.985</u>	<u>1.094</u>

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 special meeting
- the Subscription Agreement
- the WasteCo annual reports for the years ended 31 March, 2023 and 2024
- WasteCo share price data from NZX Company Research
- publicly available information regarding WasteCo.

During the course of preparing this report, we have had discussions with and / or received information from the Board and WasteCo's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Empire Allotment that is known to them and that all the factual information provided by Company contained in this report is true and accurate in all material respects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Board and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the Empire Allotment.

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 WasteCo 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 WasteCo. 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 WasteCo 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 WasteCo and its Board and management team. 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.

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 special meeting issued by WasteCo and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

5.4 Indemnity

WasteCo 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 this report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. WasteCo 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, 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 WasteCo or Empire or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Empire Allotment.

Simmons Corporate Finance has not had any part in the formulation of the CNs Issue or the Empire Allotment 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 on the Allotment 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 Board for its comments as to 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 special meeting to be sent to WasteCo'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
25 November 2024