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Notice of Extraordinary General Meeting and Explanatory Memorandum

Hamilton Securities Ltd ACN 138 270 201

Date of Meeting: 27 August 2018

Time of Meeting: 10 am (Sydney time)

Place of Meeting: Level 11, 37 Bligh Street, Sydney 2000

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of shareholders of Hamilton Securities Ltd ACN 138 270 201 (**Company**) will be held at the offices of Samuel Terry Asset Management, Level 11, 37 Bligh Street, Sydney on 27 August 2018 at 10 am (Sydney time).

Terms used in this Notice of Meeting are defined in section 10 of the accompanying Explanatory Memorandum.

The Explanatory Memorandum and the Proxy Form accompanying this Notice of Meeting are incorporated in and comprise part of this Notice of Meeting.

For the purposes of Resolution 5 and Resolution 6 an Independent Expert's Report prepared by BDO Corporate Finance (East Coast) Pty Ltd (**BDO** or **Independent Expert**) is enclosed with this Notice of Meeting in Annexure A. Shareholders are urged to read and consider the Independent Expert's Report prior to making a decision as to how to vote on Resolution 5 and Resolution 6.

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with the Australian Securities & Investments Commission (**ASIC**) in accordance with section 218 of the Corporations Act.

Agenda

The agenda for the meeting is as follows:

Ordinary business

1. Resolution 1 - Appointment of Mitchell Dawney as Director

To consider and, if thought fit, pass the following Resolution:

"That, conditional on the passage of Resolutions 4 and 5, Mitchell Dawney be elected as a Director of the Company with effect from completion of the Sale Agreement the subject of Resolution 5."

Article 19.3 of the Constitution is relevant to this resolution.

2. Resolution 2 - Appointment of Kerry Daly as Director

To consider and, if thought fit, pass the following Resolution:

"That, conditional on the passage of Resolutions 4 and 5, Kerry Daly be elected as a Director of the Company with effect from completion of the Sale Agreement share issue the subject of Resolution 5."

Article 19.3 of the Constitution is relevant to this resolution.

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3. Resolution 3 - Re-election of Giles Craig as Director

To consider and, if thought fit, pass the following Resolution:

“That, conditional on the passage of Resolutions 4 and 5, Giles Craig be re- elected as a Director of the Company with effect from completion of the share issue the subject of Resolution 5.”

Article 20.3 of the Constitution is relevant to this resolution.

4. Resolution 4 - Approval to Change of Scale of Activities

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That conditional on the passing of Resolution 5 for the purposes of NSX Listing Rule 6.41 and for all other purposes, approval is given for the Company to change the scale of its activities on completion of the acquisition by the Company of the Sale Securities pursuant to the Sale Agreement on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- (a) any person who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 4 is passed; and
- (b) any Associate of any the persons who might obtain a benefit, except a benefit solely in the capacity of a holder of the ordinary securities, if Resolution 4 is passed.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

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Special business

5. **Resolution 5 - Approval to issue Equity Securities under Section 611 (Item 7) of the Corporations Act and NSX Listing Rule 6.25**

To consider and, if thought fit, pass the following Special Resolution:

“That conditional on the passing of Resolution 4 in accordance with section 611 (item 7) of the Corporations Act and for all other purposes the Company be authorised to issue the Consideration Shares to the Vendors in consideration for the Sale Securities which would result in the Vendors acquiring a relevant interest in voting shares where the Vendors’ Voting Power in the Company would increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, upon the terms and conditions described in the Explanatory Memorandum.”

For the purpose of section 611 of the Corporations Act, an Independent Expert’s Report prepared by BDO is enclosed with this Notice of Meeting in Annexure A. BDO has formed the view that the transaction proposed by this resolution is fair and reasonable to the non-associated shareholders of the Company.

Voting Exclusion Statement

In accordance with NSX Listing Rules, the Company will disregard any votes cast on this Resolution by:

- (a) the Vendors ; and
- (b) any Associate of the Vendors, including but not limited to, Mercantile Investment Company Limited.

However, the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or
- (b) It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

6. **Resolution 6 - Approval to issue Equity Securities under Section 611 (Item 7) of the Corporations Act and NSX Listing Rules 6.25 and 6.44**

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

*“That conditional on the passing of Resolutions 4,5,7, 8 and 9 and in accordance with section 611 (item 7) of the Corporations Act and for all other purposes the Company be authorised to issue 5,294,118 HSE Shares (**Mercantile Shares**) to Mercantile Investment Company Limited (**Mercantile**) which would result in Mercantile acquiring a relevant interest in voting shares where Mercantile’s Voting Power in the Company would increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, upon the terms and conditions described in the Explanatory Memorandum.”*

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For the purpose of section 611 of the Corporations Act, an Independent Expert's Report prepared by BDO is enclosed with this Notice of Meeting in Annexure A. BDO has formed the view that the transaction proposed by this resolution is fair and reasonable to the non-associated shareholders of the Company.

Voting Exclusion Statement

In accordance with NSX Listing Rules, the Company will disregard any votes cast on this Resolution by:

- (a) Mercantile; and
- (b) Any Associate of Mercantile, including, but not limited to, Dawney and Co Pty Ltd ACN 168 708 503, Trespass Pty Ltd ACN 159 968 653 ATF DKML Super Fund and Auslese Investments Pty Ltd ACN 159 735 648.

However, the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or
- (b) It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

7. Resolution 7- Approval to issue Equity Securities under NSX Listing Rule 6.25

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

*"That, conditional on the passing of Resolution 4,5,6,8 and 9 and in accordance with NSX Listing Rule 6.25, and for all other purposes the Company be authorised to issue 900,000 HSE Shares (**Langley Shares**) to Ronald and Rhonda Langley (**Langley**).*

Notes

Voting Exclusion Statement

In accordance with NSX Listing Rules, the Company will disregard any votes cast on this Resolution by:

- (a) Langley; and
- (b) any Associate of Langley.

However, the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or
- (b) It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

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8. Resolution 8 - Approval to issue Equity Securities under NSX Listing Rule 6.25

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

*“That conditional on the passing of resolution 4,5,6,7 and 9 in accordance with NSX Listing Rule 6.25, and for all other purposes the Company be authorised to issue 900,000 HSE Shares (**EGP Capital Shares**) to EGP Capital Pty Ltd ACN 145 120 681 as manager for the EGP Capital Concentrated Value Fund (**EGP Capital**).*

Notes

Voting Exclusion Statement

In accordance with NSX Listing Rules, the Company will disregard any votes cast on this Resolution by:

- (a) EGP Capital; and
- (b) any Associate of EGP Capital.

However, the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or
- (b) It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

9. Resolution 9 - Approval to issue Equity Securities under NSX Listing Rule 6.25

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

*“That conditional on the passing of Resolutions 4,5,6,7 and 8 in accordance with NSX Listing Rule 6.25, and for all other purposes the Company be authorised to issue 900,000 HSE Shares (**Noontide Shares**) to Noontide Investments Ltd ACN 133 439 817 as manager for Noontide Opportunities Fund (**Noontide**).*

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Voting Exclusion Statement

In accordance with NSX Listing Rules, the Company will disregard any votes cast on this Resolution by:

- (a) Noontide; and
- (b) any Associate of Noontide.

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However, the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or
- (b) It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

10. Resolution 10 - Approval to change Company Name

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

“That, subject to the passing of Resolutions 4 and 5, for the purposes of Section 157(1) of the Corporations Act and for all other purposes, the name of the Company be changed to Dawney & Co Ltd with effect from completion of the share issue the subject of Resolution 5.”

General business

To consider any other business as may be lawfully put forward in accordance with the Constitution.

By order of the board

Fred Woollard

Director

25 July 2018

Explanatory Memorandum

1. Introduction

The following information is provided to Shareholders of Hamilton Securities Ltd ACN 138 270 201 (**Company**) in connection with the business to be considered at an Extraordinary General Meeting of Shareholders to be held at the offices of Samuel Terry Asset Management, Level 11, 37 Bligh Street, Sydney on 27 August 2018 commencing at 10 am (Sydney time).

The Notice of Meeting, which is also enclosed, sets out details of proposals concerning the 10 Resolutions to be put to Shareholders.

The Directors recommend Shareholders read the accompanying Notice of Meeting and this Explanatory Memorandum in full before making any decision in relation to the Resolutions.

For the purposes of Resolution 5 and Resolution 6 an Independent Expert's Report prepared by BDO (**Independent Expert**) is enclosed with this Notice of Meeting in Annexure A. Shareholders are urged to read and consider the Independent Expert's Report prior to making a decision as to how to vote on Resolution 5 and Resolution 6.

Unless otherwise defined, terms used in this Explanatory Memorandum are defined in Section 10.

Ordinary Business

2. Resolution 1- Appointment of Mitchell Dawney as director

(a) Shareholder Approval

Pursuant to Article 19.3 of the Constitution, the election of directors must be by resolution of the company at general meeting.

Accordingly, Resolution 1 seeks Shareholder approval for the appointment of Mr Dawney, whose nomination has been received in accordance with Article 19.2 of the Constitution.

(b) Experience

Mitch was a stockbroker for five and a half years. He left his firm in September 2016 to manage a private investment company focused on undervalued and underperforming public companies. Mitch instigated the revitalisation of Hamilton Securities, structured the proposal and sourced the placement capital.

The Directors support the appointment of Mr Dawney and recommend that you vote in favour of this Ordinary Resolution.

3. Resolution 2 - Appointment of Kerry Daly as director

(a) Shareholder Approval

Pursuant to Article 19.3 of the Constitution, the election of directors must be by resolution of the company at general meeting.

Accordingly, Resolution 2 seeks Shareholder approval for the appointment of Mr Daly, whose nomination has been received in accordance with Article 19.2 of the Constitution.

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(b) Experience

Kerry is a Certified Practising Accountant and has been an ASX Company Director continuously since 1992. Kerry was MD/CEO of The Rock Building Society Limited where he was responsible for its ASX listing. He is currently Non-Executive Chairman of Axxesstoday Limited (AXL.ASX), was previously Chairman of Collection House Limited and Tamawood Limited and a Non-Executive Director of Trustees Australia Limited. He also served as Executive Director of Grange Securities Limited. Kerry brings a wealth of experience in IPO and structured debt raisings, share buy-backs, securitisation and subordinated debt financing.

The Directors support the appointment of Mr Daly and recommend that you vote in favour of this Ordinary Resolution.

4. Resolution 3 - Re-election of Giles Craig as Director

(a) Shareholder Approval

In accordance with the requirements of the Constitution and the NSX Listing Rules, one-third of the directors of the Company (other than the managing director and excluding any director appointed since the last annual general meeting) and those who were re-elected more than three years ago retire from office at this AGM and, being , eligible, offer themselves for re-election.

Accordingly, Resolution 3 seeks Shareholder approval for the re-election of Mr Craig, who retires by rotation in accordance with the Constitution.

(b) Experience

Mr Craig was appointed to the Board in 2009.

He is Chairman of Asset Resolution Ltd, an NSX listed investment company and is a member of the compliance committee of RateSetter Australia RE, a peer to peer lender.

He was previously Managing Director of Cameron Stockbrokers Limited, a Sydney based private client stockbroker. Prior to that, he was Head of Private Clients at AMP Capital, Head of Distribution at Henderson Private Capital and worked in Corporate Finance at Merrill Lynch and Mergers and Acquisitions at Morgan Stanley.

He qualified with Ernst & Whinney as a Chartered Accountant in 1986 and worked with them in audit and subsequently as a management consultant in Saudi Arabia.

The Directors support the re-election of Mr Craig and recommend that you vote in favour of this Ordinary Resolution.

5. Resolution 4 - Approval to Change of Scale of Activities

NSX Listing Rule 6.41

NSX Listing Rule 6.41 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to NSX as soon as practicable.

Under Listing Rule 6.41, if NSX requires, the entity must get the approval of shareholders and must comply with any requirements of NSX in relation to the notice of meeting.

NSX have advised the Company that the change in the scale of the Company's activities does not require the Company to re-comply with the admission requirements set out in the NSX Listing Rules.

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NSX have however advised that the Company must seek Shareholder approval for the change in scale of activities which will result from the acquisition of the Securities in accordance with Listing Rule 6.41.

As such, Resolution 4 seeks Shareholder approval for the Sale Agreement under Listing Rule 6.41.

The Company intends to continue to develop, or otherwise realise value from, the Company's existing activities if the Sale Agreement proceeds to completion.

Special Business

6. Resolution 5 - Approval to issue Equity Securities under Section 611 (Item 7) of the Corporations Act and NSX Listing Rule 6.25

(a) Background

The Company entered into the Sale Agreement on 19 July 2018 with the Vendors, pursuant to which it has agreed to acquire the Sale Securities, subject to the satisfaction of various conditions, including Shareholder approval of the purchase of the Sale Securities.

The Sale Agreement is subject to a number of conditions precedent including:

- (a) The Vendors being satisfied, in their absolute discretion, with the results of their own due diligence in respect of the transactions contemplated by the Sale Agreement.
- (b) The Company obtaining an independent expert's report on whether the transactions contemplated by the Sale Agreement, are fair and reasonable, for the purposes of item 7 of section 611 of the Corporations Act, NSX Listing Rules 6.41 and/or 6.43 (as required by the NSX), Chapter 2E of the Corporations Act and for all other purposes, the terms of which:
 - (1) are satisfactory to the directors of the Buyer acting reasonably; and
 - (2) comply with any applicable requirements set out in ASIC's Regulatory Guides 74, 76, and 111,

(Buyer's Independent Expert's Report).
- (c) Shareholders of the Company approving the purchase of the Securities from the Associated Vendors pursuant to item 7 of section 611 of the Corporations Act and NSX Listing Rules 6.41 and/or 6.43 (as required by the NSX), Chapter 2E of the Corporations Act and for all other purposes.
- (d) Shareholders of the Company approving the appointment of:
 - (1) Mitch Dawney;
 - (2) Kerry Daly; and
 - (3) Giles Craig,as directors of the Company.
- (d) Shareholders of the Company approving Resolutions 5 and 6.
- (e) If required, the Company obtaining an independent expert's report on whether the Placement is fair and reasonable, for the purposes of item 7 of section 611 of the

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Corporations Act, NSX Listing Rules 6.41 and/or 6.43 (as required by the NSX), Chapter 2E of the Corporations Act and for all other purposes, the terms of which:

- (1) are satisfactory to the directors of the Buyer acting reasonably; and
- (2) comply with any applicable requirements set out in ASIC's Regulatory Guides 74, 76, and 111

(Buyer's Independent Expert's Report Placement Report).

- (f) The Company obtaining and being satisfied (in its sole discretion) with any necessary approval, determination, waiver or in-principle advice of NSX and/or ASIC (as the case may be) in respect of the purchase of the Securities by the Buyer and the Placement and the Rights Issue.
- (g) The Independent Expert opining in the Buyer's Independent Expert's Report that the sale of the Sale Securities are fair and reasonable and not withdrawing that opinion.
- (h) No Material Adverse Change affecting the Company occurs, or is discovered, announced or disclosed or otherwise becomes known to the Vendors, between the date of the Sale Agreement and 31 August 2018.

Accordingly, Resolution 5 seeks Shareholder approval to the issue of the Consideration Securities to the Vendors in consideration for the purchase of the Sale Securities.

If the Sale Agreement is completed and the placements the subject of Resolutions 7, 8 and 9 are completed the Associated Vendors pursuant to the Sale Agreement will increase their voting power in HSE Shares from holding no HSE Shares or 0% to 13,585,171 HSE Shares or 74.47 % ,as the Associated Vendors are considered to be an Associate of Mercantile

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(b) Summary of Sale Securities

The Sale Securities that will be transferred to the Company under the Sale Agreement is summarised in this Section 6(b).

Entity	Number of Shares	% interest ¹	Trading data ²	VWAP ³ \$	Price per Security
Horizon Oil Limited (HZN.ASX)	6,250,000				\$0.135
NGE Capital Limited (NGE.ASX)	674,999				\$0.60
APN Regional Property Fund (APR.NSX)	218,026				\$1.15

The Company considers the Sale Securities to be an attractive portfolio of ASX listed Securities with reasonable concentration.

Each entity that forms part of the Sale Securities is an ASX or NSX listed entity. As ASX and NSX listed entities and “disclosing entities” under the Corporations Act, the entities in the Sale Securities portfolio are subject to regular reporting and disclosure obligations which require the entities to announce price sensitive information as soon as they become aware of that information.

ASX maintains files containing publicly listed information about entities listed on the ASX. For further information about an entity in the Sale Securities portfolio, recent announcements and security price details are available at www.asx.com.au

(c) Shareholder Approval

Resolution 6 seeks Shareholder authorisation under;

- (1) section 611 (Item 7) of the Corporations Act and NSX Listing Rule 6.25 to issue such of the Consideration Shares to the Associated Vendors at an issue price of \$0.17 each; and
- (2) NSX Listing Rule 6.25 to issue such of the Consideration Shares to the Other Vendor at an issue price of \$0.17 each.

¹ as at [x], the last trading day before execution of the Sale Agreement

² Trading data represents the highest and lowest price at which securities in the relevant entity traded on ASX over the [x] months to [x] and the average volume of securities traded each month over this period.

³ The VWAP at which securities have traded over the 10 days up to and including [x], the last trading day before execution of the Sale Agreement.

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The Consideration Shares will be issued to the Vendors on completion of the Sale Agreement as follows:

Table

Vendors	Entitlement to Consideration Shares
Dawney & Co Pty Ltd ACN 168 708 503	6,069,114
Trepass Pty Ltd ACN 159 968 653 ATF DKML Super Fund	1,897,057
Auslese Investments Pty Ltd ACN 159 734 648	324,882
John Holt & Hilary Jane Holt	529,412
Total	8,820,465

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(d) Chapter 6, section 611 (Item 7) of the Corporations Act

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the acquisition would result in that person's Voting Power in the company increasing:

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

(Takeover Prohibition).

However, there are certain specified exceptions to the Takeover Prohibition. In particular, under section 611 (Item 7) of the Corporations Act an acquisition will not contravene the Takeover Prohibition if shareholders approve the acquisition by passing a Resolution at a general meeting, where:

- (a) no votes were cast in favour of the Resolution by the person proposing to make the acquisition or their Associates; and
- (b) shareholders were given all information known to the acquirer or the company that was material to the decision on how to vote,

(Takeover Exception).

ASIC Regulatory Guide 74: Acquisitions Approved by Members' (**ASIC RG 74**) also specifies certain requirements where a Company seeks an acquisition to be exempt under section 611 (Item 7).

Therefore, the acquisition by the Associated Vendors of the Consideration Shares will result in the Associated Vendors acquiring a relevant interest in issued voting shares which will cause the Associated Vendors Voting Power in the Company to increase from a starting point that is:

- (a) below 20% to more than 20%; or
- (b) from a starting point that is above 20% and below 90% (where the Prescribed Securities are not converted in full at one time).

Accordingly, Resolution 5 seeks approval for the issue of such of the Consideration Shares to the Associated Vendors under the Sale Agreement under section 611 (Item 7).

For the purposes of section 611 (Item 7(b)), the Company advises that:

(a) **Section 611 (Item 7(b)(i)): The identity of the person proposing to make the acquisition and their Associates**

The identity of the person proposing to make the acquisition and their Associates are the Associated Vendors. No Associates of the Associated Vendors hold securities in the Company but Mercantile which holds more than 20% of Dawney & Co Pty Ltd ACN 168 708 503 is considered to be an Associate of the Associated Vendors is seeking to acquire further HSE Shares pursuant to the Mercantile Subscription Agreement the subject of Resolution 7.

(b) **Section 611 (Item 7(b)(ii)): The maximum extent of the increase in that person's voting power in the company that would result from the acquisition**

There are currently 2,138,831 Shares on issue in the Company.

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Currently the Associated Vendors and the Other Vendor hold no HSE Shares.

- (c) **Section 611 (Item 7(b)(iii)): The voting power that the person would have as a result of the acquisition.**

If the Sale Agreement is completed and the Placement is completed, the Associated Vendors will increase their voting power in HSE Shares from holding no HSE Shares or 0% to 8,820,465 HSE Shares or 52.20% and if all of the placements the subject of Resolutions 7, 8 and 9 are completed, to 13,585,171 HSE Shares or 74.47%.

- (d) **Section 611 (Items 7(b)(iv) and 7(b)(v)): The maximum extent of the increase in the voting power of each of that person's Associates that would result from the acquisition and the voting power that each of that person's Associates would have as a result of the acquisition.**

No Associates of the Vendors hold securities in the Company.

- (e) **ASIC RG 74.25**

In accordance with ASIC RG 74.25, the Company advises that:

- (1) **Reasons for the proposed acquisition**

The Company's reasons for proceeding with the proposed acquisition can be summarised as follows:

- (a) **Premium to market price** - the Sale Securities and Consideration Securities issued under the Sale Agreement will be issued at a premium to the market price prior to the announcement of the proposed transactions.
- (b) **Improved sustainability and growth outlook** - the purchase of the Sale Securities will increase the size of the Company's capital base and will allow the Company to expand its investment activities, both in scale and scope. This will contribute to making the Company more sustainable in the long term and offer Shareholders improved prospects for growth over time.
- (c) **Investment in the Sale Securities** - Your Directors consider that the acquisition of the Sale Securities provides the Company with an opportunity to acquire a portfolio of shares of micro- and small-capitalisation companies that each offer attractive prospects for future returns in a single transaction. The Sale Securities have been accumulated by the Vendors over time, and would likely take time if the Company were to seek to acquire the same number of shares in the same entities.
- (d) **Strengthened financial position and increased diversification** - the issue of the Consideration Shares has the potential to increase available funds for investment in Australian ASX listed securities and allow for an increased exposure to a larger and more diversified portfolio of assets.

- (2) **When the proposed acquisition is to occur**

The issue of the Consideration Shares will take place on the business day after the satisfaction or waiver of the last of the conditions precedent under the Sale Agreement. Presently this is anticipated to be in late August 2018.

- (3) **Material terms of the proposed acquisition**

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The Consideration Shares will rank equally with all other Shares on issue in the Company.

Apart from as already set out in the balance of this Explanatory Memorandum there are no other material terms.

(e) **Details of any other relevant agreement between the acquirer and the Company that is conditional or depends on members' approval of the proposed acquisition**

Other than the details of the Sale Agreement as set forth in Section 6.1, there are no other relevant agreement between the Vendors and the Company that is conditional or depends on members' approval of the proposed acquisition.

(f) **Acquirer's intentions regarding the future of the target entity if members approve the acquisition**

The Vendors have advised the Board that they have no intention of:

- (1) requesting the Company to change its strategic direction or operational priorities;
- (2) seeking to change the Company's current employment arrangements; or
- (3) using its increased voting power to attempt to secure additional Board positions.

The Vendors have further advised that they are prepared to inject further capital into the Company to fund the Company's activities in circumstances where it considers that its further investment is in the interests of the Company and alternative sources of funding are not available on a cost-effective or commercial basis. Whilst the quantum of any such further investment in the Company has not been determined, it is likely to be material for the purposes of the Vendors' relevant interest in the Company and will therefore be conditional on further shareholder approval being obtained.

(g) **Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity**

The Vendors have advised the Board that they have no intention of seeking to change the financial or dividend distribution policies of the Company.

(h) **The interests that any director has in the acquisition or any relevant agreement disclosed above**

- (i) No director of the Company has any interest in the acquisition of any relevant agreement disclosed above.

(j) **Intended directors if members approve the acquisition**

The Vendors do not propose to appoint any further directors if the Sale Agreement is approved other than those the subject of Resolutions 1, 2 and 3.

(e) **Independent Experts Report**

For shareholder approval sought under item 7 of section 611 of the Corporations Act, ASIC RG 74 also requires that Shareholders be provided with an Independent Experts Report one of the purposes of which is to consider whether the issue of the Consideration Shares to the

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Associated Vendors is fair and reasonable to the Shareholders who are not Associated with the Associated Vendors.

The Company has engaged BDO to provide the Independent Expert's Report.

Shareholders are urged to read and consider the Independent Expert's Report which is **enclosed** with the Notice of Meeting prior to making a decision as to how to vote on Resolution 5.

The Independent Expert's Report concludes that the issue of the Consideration Shares to and the Placement Securities the Associated Vendors (Transaction) is fair and reasonable to the Non Associated Shareholders.

Fairness

In forming BDO's opinion in relation to the fairness of the Transaction, BDO has considered the impact of the issue of the Consideration Securities and the Placement Securities collectively.

BDO has formed its opinion in relation to fairness of the proposed Transactions by comparing:

- the fair market value of a HSE Share before completion of the proposed Transactions on a controlling interest basis; and
- the fair market value of a HSE Share after completion of the proposed Transactions on a minority interest basis.

A summary of BDO's opinion in relation to both the Consideration Shares and the Placement Shares is set out below (refer to Annexure A for further details):

Fair market value of HSE Share	Ref	Low	High
Value range of HSE per security pre transaction (control)		0.10	0.10
Value range of HSE per security post transaction (minority interest)		0.14	0.17
Conclusion		FAIR	

As set out above, BDO's opinion is that the proposed Transactions are fair to Non-Associated Shareholders.

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Reasonableness Assessment

BDO have assessed the reasonableness of the proposed Transactions by considering the likely advantages and disadvantages associated with the issue of the HSE Shares and the Sale Agreement set out below:

Advantages	
Increase in investment portfolio	The Sale Securities to be acquired will increase the net asset position of the Company and the size of the Company’s capital base. The Sale Securities will also provide additional diversity to the Company’s investment portfolio.
Acquisition of listed investments	The Sale Securities will provide opportunities for HSE shareholders to receive future value from increases in the underlying value of the acquired securities and provide diversity to the existing assets of the Company. The portfolio of Sale Securities to be acquired by HSE could otherwise take time to acquire on market.
Premium to quoted price	The Sale Securities and Consideration Securities issued under the Sale Agreement will be issued at a premium to the market price prior to the announcement of the Proposed Transactions.
Capital injection	<p>Capital injection - The Proposed Transactions provide HSE with a significant capital injection, increasing the scale of the Company, reducing liquidity risk and providing capital for further investment acquisitions.</p> <p>HSE holds minimal cash. There is a risk it may not have sufficient funds to continue operations without a capital injection.</p> <p>The Vendors have further advised that they are prepared to inject further capital into the Company to fund the Company’s activities in circumstances where it considers that its further investment is in the interests of the Company and alternative sources of funding are not available on a cost-effective or commercial basis.</p>

Disadvantages	
Substantial holding	Following completion of the Proposed Transactions Mercantile Investment Company and the Associated Vendors collective voting power in HSE would be 71.67% providing significant influence to exert over the Company and the ability to block special resolutions or transactions the may be favourable to Non-associated Shareholders.
Dilution	The Proposed Transactions will result in a dilution of existing Shareholder’s shareholding and a decrease in voting power

After considering the above factors, BDO opined that the proposed Transactions are reasonable to Non Associated Shareholders of HSE.

Explanatory Memorandum

This above is a summary only. For further details of the assessment made by BDO in determining the fairness and reasonableness of the Transaction please refer to the Independent Expert's Report in Annexure A.

NSX Listing Rule 6.25 - Issues exceeding 15% of capital

Listing Rule 6.25 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (15% Capacity) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 6.25 (**15% Rule**).

(f) **A voting exclusion statement is set out in Resolution 5**

(g) **Directors' Recommendation**

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they believe it to be in the best interests of the Company.

7. Resolution 6 - Issue of Equity Securities to Mercantile under Section 611 (Item 7) of the Corporations Act and under Listing Rules 6.25 , 6.41 and 6.44 of the NSX Listing Rules

(a) **Background**

In conjunction with the acquisition of the Securities the subject of Resolution 5, the Company also proposes raising the sum of \$1, 359,000 through the issue of 7,994,118 HSE Shares at an issue price of \$0.17 each comprising and issue of;

- (a) 5,294,118 HSE Shares to Mercantile Investment Company Limited;
- (b) 900,000 HSE Shares to Ronald and Rhonda Langley;
- (c) 900,000 HSE Shares to EGP Capital Pty Ltd ACN 145 120 681 as manager for the EGP Capital Concentrated Value Fund; and
- (d) 900,000 HSE Shares to Noontide Investments Ltd ACN 133 439 817 as manager for Noontide Opportunities Fund.

Mercantile is the holder of some 3,700,000 ordinary shares in Dawney , or 36.63% of the issued share capital and thereby on completion of the Sale Agreement will be deemed to have the same voting power in HSE Shares as Dawney.

Additionally, Mercantile has entered into the Mercantile Subscription Agreement.

If the Sale Agreement is completed and Mercantile were to complete the Mercantile Subscription Agreement, Mercantile as it is considered to be an Associate of the Associated Vendors would increase its voting power in HSE Shares from no HSE Shares or 0 % to 13,585,171 HSE Shares or 74.47%.

(b) **Shareholder Approval**

Resolution 6 seeks Shareholder authorisation under section 611 (Item 7) of the Corporations Act and NSX Listing Rules 6.25 , 6.41 and 6.43 to issue 5,294,118 HSE Shares to Mercantile at an issue price of \$0.17 each.

Explanatory Memorandum

Since Mercantile will have a voting power in excess of 50 % it may be considered a Related Party.

(c) **Chapter 6, section 611 (Item 7) of the Corporations Act**

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the acquisition would result in that person's Voting Power in the company increasing:

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

(Takeover Prohibition).

However, there are certain specified exceptions to the Takeover Prohibition. In particular, under section 611 (Item 7) of the Corporations Act an acquisition will not contravene the Takeover Prohibition if shareholders approve the acquisition by passing a Resolution at a general meeting, where:

- (c) no votes were cast in favour of the Resolution by the person proposing to make the acquisition or their Associates; and
- (d) shareholders were given all information known to the acquirer or the company that was material to the decision on how to vote,

(Takeover Exception).

'ASIC Regulatory Guide 74: Acquisitions Approved by Members' (**ASIC RG 74**) also specifies certain requirements where a Company seeks an acquisition to be exempt under section 611 (Item 7).

Therefore, the acquisition by the Associated Vendors of the Consideration Shares will result in Mercantile acquiring a relevant interest in issued voting shares which will cause Mercantile's Voting Power in the Company to increase from a starting point that is:

- (e) below 20% to more than 20%; or
- (f) from a starting point that is above 20% and below 90% (where the Prescribed Securities are not converted in full at one time).

Accordingly, Resolution 6 seeks approval for the issue of the Mercantile Shares to Mercantile under the Mercantile Subscription Agreement under section 611 (Item 7).

For the purposes of section 611 (Item 7(b)), the Company advises that:

(g) **Section 611 (Item 7(b)(i)): The identity of the person proposing to make the acquisition and their Associates**

The identity of the person proposing to make the acquisition and their Associates is Mercantile. No Associates of Mercantile hold securities in the Company.

(h) **Section 611 (Item 7(b)(ii)): The maximum extent of the increase in that person's voting power in the company that would result from the acquisition**

There are currently 2,138,831 Shares on issue in the Company.

Currently Mercantile holds no HSE Shares.

Explanatory Memorandum

Mercantile is the holder of some 3,700,000 ordinary shares in Dawney or 36.63% of the issued share capital and thereby on completion of the Sale Agreement will be deemed to have the same voting power in HSE Shares as Dawney.

Additionally, Mercantile has entered into the Mercantile Subscription Agreement.

Mercantile is considered to be an Associate of the Associated Vendors .

If the Sale Agreement is completed and the all of the placements the subject of Resolutions 7, 8 and 9 are completed , Mercantile were to complete the Mercantile Subscription Agreement, Mercantile would increase its voting power in HSE Shares from no HSE Shares or 0 % to 13,585,171 HSE Shares or 71.67 % (through Mercantile's direct shareholding in HSE and its relevant interest in the shares held by the Associated Vendors) .

The Table below outlines the impact of completion of the Sale Agreement, the Mercantile Subscription Agreement , the Langley Subscription Agreement, the EGP Subscription Agreement and the Noontide Subscription Agreement on existing shareholders in the Company;

Shareholder	Pre Proposed Transaction	Sale Agreement	Subscription Agreements	No. Shares Post Transaction	% Post Transaction
Existing Shareholders	2,138,831 (100%)		-	2,138,831	11.28%
Associated Vendors		8,291,055	-	8,291,055	43.74%
Holt		529,412	-	529,412	2.79%
Mercantile ¹			5,294,118	5,294,118	27.93%
Langley		Nil	900,000	900,000	4.74%
EGP Capital			900,000	900,000	4.74%
Noontide			900,000	900,000	4.74%
Total		10,899,298	18,953,416	100%	100%

Note:

1. Mercantile owns 36.63% of Dawney & Co Pty Ltd

(i) **Section 611 (Item 7(b)(iii)): The voting power that the person would have as a result of the acquisition.**

If the Sale Agreement is completed and Mercantile were to complete the Mercantile Subscription Agreement, and also the Langley Subscription Agreement, the EGP Subscription Agreement and the Noontide Subscription Agreement are completed Mercantile would increase its voting power in HSE Shares from no HSE Shares or 0% to 13,585,171 HSE Shares or 71.67% (through Mercantile's direct shareholding in HSE and its relevant interest in the shares held by the Associated Vendors) .

(j) **Section 611 (Items 7(b)(iv) and 7(b)(v)): The maximum extent of the increase in the voting power of each of that person's Associates that would result from the**

Explanatory Memorandum

acquisition and the voting power that each of that person's Associates would have as a result of the acquisition.

No Associates of Mercantile hold securities in the Company.

(k) **ASIC RG 74.25**

In accordance with ASIC RG 74.25, the Company advises that:

(1) **Reasons for the proposed acquisition**

The Company's reasons for proceeding with the proposed acquisition can be summarised as follows:

- (A) **Premium to market price** - the Sale Securities and Consideration Securities issued under the Sale Agreement will be issued at a premium to the market price prior to the announcement of the proposed transactions.
- (B) **Improved sustainability and growth outlook** - the purchase of the Sale Securities will increase the size of the Company's capital base and will allow the Company to expand its investment activities, both in scale and scope. This will contribute to making the Company more sustainable in the long term and offer Shareholders improved prospects for growth over time.
- (C) **Investment in the Sale Securities** - Your Directors consider that the acquisition of the Sale Securities provides the Company with an opportunity to acquire a portfolio of shares of micro- and small-capitalisation companies that each offer attractive prospects for future returns in a single transaction. The Sale Securities have been accumulated by the Vendors over time, and would likely take time if the Company were to seek to acquire the same number of shares in the same entities.
- (D) **Strengthened financial position and increased diversification** - the issue of the Consideration Shares has the potential to increase available funds for investment in Australian ASX listed securities and allow for an increased exposure to a larger and more diversified portfolio of assets.

(2) **When the proposed acquisition is to occur**

The issue of the Mercantile Shares will take place on the business day after satisfaction of the last of the conditions precedent to the Mercantile Placement Agreement but in any event within one month following this Meeting.

(3) **Material terms of the proposed acquisition**

The Mercantile Shares will rank equally with all other Shares on issue in the Company.

Apart from as already set out in the balance of this Explanatory Memorandum there are no other material terms.

Explanatory Memorandum

(l) **Details of any other relevant agreement between the acquirer and the Company that is conditional or depends on members' approval of the proposed acquisition**

Mercantile is the holder of some 3,700,000 ordinary shares in Dawney , or some 36.63% of the issued share capital and thereby on completion of the Sale Agreement will be deemed to have the same voting power in HSE Shares as the Associated Vendors .

Details of the Sale Agreement are set forth in Section 6.1.

(m) **Acquirer's intentions regarding the future of the target entity if members approve the acquisition**

Mercantile has advised the Board that it has no intention of:

- (1) requesting the Company to change its strategic direction or operational priorities;
- (2) seeking to change the Company's current employment arrangements;
- (3) seeking to acquire any of the Company's assets or otherwise redeploy the assets of the Company; or
- (4) using its increased voting power to attempt to secure additional Board positions or vary the current balance of nominee and independent directors.

Mercantile has further advised that it is prepared to inject further capital into the Company to fund the Company's activities in circumstances where it considers that its further investment is in the interests of the Company and alternative sources of funding are not available on a cost-effective or commercial basis. Whilst the quantum of any such further investment in the Company has not been determined, it is likely to be material for the purposes of Mercantile's relevant interest in the Company and will therefore be conditional on further shareholder approval being obtained.

(n) **Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity**

Mercantile has advised the Board that it has no intention of seeking to change the financial or dividend distribution policies of the Company.

(o) **The interests that any director has in the acquisition or any relevant agreement disclosed above**

(p) No director of the Company has any interest in the acquisition of any relevant agreement disclosed above

(q) **Intended directors if members approve the acquisition**

Mercantile does not propose to appoint any directors if the Mercantile Subscription Agreement is approved.

(d) **Independent Experts Report**

For shareholder approval sought under item 7 of section 611 of the Corporations Act, ASIC RG 74 also requires that Shareholders be provided with an Independent Experts Report one of the purposes of which is to consider whether the issue of the Mercantile Shares to Mercantile is fair and reasonable to the Shareholders who are not associated with Mercantile.

Explanatory Memorandum

The Company has engaged BDO to provide the Independent Expert's Report.

Shareholders are urged to read and consider the Independent Expert's Report which is **enclosed** with the Notice of Meeting prior to making a decision as to how to vote on Resolution 6.

The Independent Expert's Report concludes that the issue of the Mercantile Shares to Mercantile (Transaction) is fair and reasonable to the non associated Shareholders.

Fairness

As set out above in section 6(e), the Independent Expert has concluded that the issue of the Placement Securities (including the Mercantile Shares to Mercantile) under the Placement is fair.

Reasonableness

In determining whether the Placement (including the Mercantile Placement) is reasonable, BDO have considered the likely advantages and disadvantages associated with the Mercantile Placement and

As set out above in section 6(e), the Independent Expert has concluded that the issue of the Placement Securities (including the Mercantile Shares to Mercantile) under the Placement is reasonable. This above is a summary only, for further details of the assessment made by BDO in determining the fairness and reasonableness of the Placement (including the Mercantile Placement Transaction) please refer to the Independent Expert's Report in Annexure A.

NSX Listing Rule 6.25, 6.41 and 6.44

(a) Listing Rule 6.25 - Issues exceeding 15% of capital

Listing Rule 6.25 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (**15% Capacity**) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 6.25 (15% Rule).

(b) NSX Listing Rule 6.44

Listing Rule 6.44 requires that an entity must obtain the approval of Shareholders to issue Securities to a Related Party and in doing so must provide the information specified in Listing Rule 6.44, unless an exception applies.

For the purposes of Listing Rule 6.44 and for all other purposes the following information is provided to Shareholders:

(1) Name and relationship of the Related Party

The Related Party is Mercantile. Mercantile is considered a Related Party because if the Sale Agreement is completed and the Rights Issue is fully subscribed and the Mercantile Placement is completed then Mercantile will have a voting power in excess of 50% of the Company.

(2) Maximum Number of Securities to be issued (if known) or the formula for calculating the number of Securities to be issued

Explanatory Memorandum

The maximum number of Equity Securities to be issued is 5,294,118 HSE Shares.

(3) **Date by which the Securities will be issued**

The Company will issue the Mercantile Shares on the business day after satisfaction of the last of the conditions precedent to the Mercantile Placement Agreement but in any event within one month following this Meeting.

(4) **Issue price and terms of the Securities**

The Mercantile Shares are being issued at an issue price of \$0.17 per Share and will rank pari passu with all of the other fully paid ordinary shares on issue in the Company.

(5) **Intended use of funds raised**

The funds being raised by the issue of the Mercantile Shares will be applied to working capital.

(6) **Voting exclusion statement**

(e) **A voting exclusion statement is set out in Resolution 6**

(f) **Directors' Recommendation**

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they consider it is in the best interests of the Company.

8. **Resolution 7 Issue of Equity Securities to Ronald and Rhonda Langley under Listing Rule 6.25 of the NSX Listing Rules**

(a) **Background**

In conjunction with the acquisition of the Securities the subject of Resolution 5, the Company also proposes raising the sum of \$1,359,000 through the issue of 7,994,118 HSE Shares at an issue price of \$0.17 each comprising and issue of;

- (a) 5,294,118 HSE Shares to Mercantile Investment Company Limited;
- (b) 900,000 HSE Shares to Ronald and Rhonda Langley;
- (c) 900,000 HSE Shares to EGP Capital Pty Ltd ACN 145 120 681 as manager for the EGP Capital Concentrated Value Fund; and
- (d) 900,000 HSE Shares to Noontide Investments Ltd ACN 133 439 817 as manager for Noontide Opportunities Fund.

(b) **Shareholder Approval**

Resolution 7 seeks Shareholder authorisation under NSX Listing Rules 6.25 to issue 900,000 HSE Shares to Langley (**Langley Prescribed Securities**) at an issue price of \$0.17 each.

Explanatory Memorandum

NSX Listing Rule 6.25 - Issues exceeding 15% of capital

Listing Rule 6.25 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (15% Capacity) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 6.25 (15% Rule).

(c) **A voting exclusion statement is set out in Resolution 7**

(d) **Directors' Recommendation**

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they believe it to be in the best interest of the Company.

9. Resolution 8 Approval to issue Equity Securities under NSX Listing Rule 6.25

(a) **Background**

In conjunction with the acquisition of the Securities the subject of Resolution 5, the Company also proposes raising the sum of \$1,359,000 through the issue of 900,000 HSE Shares at an issue price of \$0.17 each comprising and issue of;

- (a) 5,294,118 HSE Shares to Mercantile Investment Company Limited;
- (b) 900,000 HSE Shares to Ronald and Rhonda Langley;
- (c) 900,000 HSE Shares to EGP Capital Pty Ltd ACN 145 120 681 as manager for the EGP Capital Concentrated Value Fund; and
- (d) 900,000 HSE Shares to Noontide Investments Ltd ACN 133 439 817 as manager for Noontide Opportunities Fund.

(b) **Shareholder Approval**

Resolution 8 seeks Shareholder authorisation under NSX Listing Rules 6.25 to issue 900,000 HSE Shares to EGP Capital (**EGP Prescribed Securities**) at an issue price of \$0.17 each.

NSX Listing Rule 6.25 - Issues exceeding 15% of capital

Listing Rule 6.25 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (15% Capacity) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 6.25 (15% Rule).

(c) **A voting exclusion statement is set out in Resolution 8**

(d) **Directors' Recommendation**

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they believe it to be in the best interest of the Company.

Explanatory Memorandum

10. Resolution 9 Approval to issue Equity Securities under NSX Listing Rule 6.25

(a) Background

In conjunction with the acquisition of the Securities the subject of Resolution 5, the Company also proposes raising the sum of \$1,359,000 through the issue of 900,000 HSE Shares at an issue price of \$0.17 each comprising and issue of;

- (a) 5,294,118 HSE Shares to Mercantile Investment Company Limited;
- (b) 900,000 HSE Shares to Ronald and Rhonda Langley;
- (c) 900,000 HSE Shares to EGP Capital Pty Ltd ACN 145 120 681 as manager for the EGP Capital Concentrated Value Fund; and
- (d) 900,000 HSE Shares to Noontide Investments Ltd ACN 133 439 817 as manager for Noontide Opportunities Fund.

(b) Shareholder Approval

Resolution 9 seeks Shareholder authorisation under NSX Listing Rules 6.25 to issue 900,000 HSE Shares to Noontide (**Noontide Prescribed Securities**) at an issue price of \$0.17 each.

NSX Listing Rule 6.25 - Issues exceeding 15% of capital

Listing Rule 6.25 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (15% Capacity) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 6.25 (15% Rule).

(c) A voting exclusion statement is set out in Resolution 9

(d) Directors' Recommendation

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they believe it to be in the best interest of the Company.

11. Resolution 10 Approval to change Company Name

(a) Reasons for proposed change

The Directors believe that the name of the Company needs to change to reflect the proposed future direction of the business of the Company and to align more closely with its strategic goals.

Pursuant to section 157(1) of the Corporations Act, a special resolution of Shareholders is required to approve an amendment to the Constitution.

(b) Directors' Recommendation

Each of the Directors recommend that non-associated Shareholders vote in favour of this Resolution because they believe it to be in the best interest of the Company.

Explanatory Memorandum

12. Voting entitlement

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the Shares at 7.00pm (Sydney Time) on 25 August 2018.

Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

13. Interpretation

The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

15% Capacity has the meaning given to that term in sections 6.5 and 7.4.

AGM means annual general meeting.

ASIC means the Australian Securities & Investments Commission.

Associate means, for any person, a related body corporate (as defined in the Corporations Act) of that person.

Associated Vendors means Dawney & Co Pty Ltd ACN 168 708 503, Trepass Pty Ltd ACN 159 968 653 ATF DKML Super Fund and Auslese Investments Pty Ltd ACN 159 734 648 .

Associated Entity has the meaning given to that term in the Corporations Act.

Board means the board of Directors of the Company from time to time.

Business Day means a day on which all banks are open for business generally in Brisbane.

Chair means the person chairing the Meeting.

Company means Hamilton Securities Ltd ACN 138 270 201.

Consideration Shares means 8,760,467 ordinary fully paid shares in the Company.

Constitution means the constitution of the Company from time to time.

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

Directors mean the directors of the Company from time to time.

EGP Subscription Agreement means the agreement dated 19 July 2018 between the Company and EGP Capital .

Eligible Shareholders means the shareholders of the Company.

Equity Securities has the meaning given to that term in the Listing Rules.

Explanatory Memorandum means the explanatory statement accompanying this Notice.

Financial Benefit has the meaning given to that term in section 229 of the Corporations Act.

HSE Shares means ordinary shares in the capital of the Company.

Explanatory Memorandum

Independent Expert or BDO means BDO Corporate Finance (East Coast) Pty Ltd

Langley Subscription Agreement means the agreement dated 19 July 2018 between the Company and Ronald and Rhonda Langley.

Market Price has the meaning given to that term in the NSX Listing Rules.

Meeting means the Extraordinary General Meeting to be held on 27 August 2018 as convened by the accompanying Notice of Meeting.

Mercantile Subscription Agreement means the agreement dated 19 July 2018 between the Company and Mercantile.

Noontide Subscription Agreement means the agreement dated 19 July 2018 between the Company and Noontide.

Notice of Meeting or **Notice** means the notice of meeting giving notice to shareholders of the Meeting, accompanying this Explanatory Memorandum.

NSX means the National Stock Exchange of Australia Limited ABN 11 000 902 063 or the securities exchange operated by it (as the case requires).

NSX Listing Rules means the listing rules of NSX as amended or varied from time to time.

Ordinary Resolution means a resolution passed by more than 50% of the votes at a general meeting of shareholders.

Other Vendor means John Holt & Hilary Jane Holt.

Related Party has the meaning in section 228 of the Corporations Act.

Resolutions means the resolutions set out in the Notice of Meeting.

Sale Agreement means the Agreement for Sale of Securities dated 19 July 2018 entered into by the Company and Dawney & Co Pty Ltd ACN 168 708 503, Trepass Pty Ltd ACN 159 968 653 ATF DKML Super Fund, Auslese Investments Pty Ltd ACN 159 734 648 and John Holt & Hilary Jane Holt.

Sale Securities means the ASX listed Securities set out in Section 6(b).

Securities has the meaning in section 92(1) of the Corporations Act.

Shares means fully paid ordinary shares in the Company from time to time.

Shareholder means a shareholder of the Company.

Special Resolution means a resolution:

- (a) of which notice has been given as set out in paragraph 249L(1)(c) of the Corporations Act; and
- (b) that has been passed by at least 75% of the votes cast by members entitled to vote on the resolution.

Subsidiaries has the meaning given to that term in the Corporations Act.

Vendors means the Associated Vendors and the Other Vendor .

Explanatory Memorandum

Voting Power has the meaning given to that term in the Corporations Act.

Explanatory Memorandum

Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Mr Fred Woollard, Director on 0400 001976.

10 Murray Street, Hamilton, New South Wales

HAMILTON SECURITIES LIMITED
ACN 138 270 201

FORM OF PROXY

I/we,, of

....., being a member of Hamilton Securities Limited, hereby

appoint or, failing that person, the Chairman

of the Meeting, to attend on my behalf and vote at the general meeting of the company to be held at 10.00 am on Monday 27 August 2018.

VOTING DIRECTIONS

	For	Against	Abstain
1. Election of Mitchell Dawney	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Election of Kerry Daly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-election of Giles Craig	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Approval to change of scale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Approval to issue equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Approval to issue equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Approval to issue equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Approval to issue equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Approval to issue equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Approval to change of name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SIGNATURE

Security holder 1 (individual)	Security holder 2 (individual)	Security holder 3 (individual)
Sole director and sole company secretary	Director / company secretary	Director

INSTRUCTIONS FOR COMPLETION OF PROXY FORM

APPOINTMENT OF A PROXY

You may appoint a proxy to attend at the meeting and vote on your behalf. You may if you wish appoint the Chairman of the Meeting to act as your proxy. If you do not name a proxy, or if your named proxy does not attend the meeting, the Chairman of the Meeting will act as your proxy. A proxy need not be a shareholder in the Company.

VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All of your shares will be voted in accordance with such a direction unless you indicate that only a portion of your voting rights are to be exercised by the proxy holder. If you do not mark any of the boxes on a given item your proxy may vote as he or she chooses.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional form may be obtained from the Company or you may copy this form.

To appoint a second proxy you must mark on each proxy form the percentage of your voting rights or the number of shares represented by that form. If the forms do not specify the percentage of voting rights or the number of shares represented, each proxy may exercise half of your votes.

SIGNING INSTRUCTIONS

Where the holding is in one name, the proxy form must be signed by the holder.

Where the holding is in joint names, the form must be signed by each shareholder.

Where the proxy is executed under a power of attorney, a copy of the power of attorney must be attached to the form.

Where the holder is a company, the form must be signed:

- (a) where the company has a sole director who is also the secretary, by that person;
- (b) where the company has a sole director but no secretary, by the sole director;
- (c) otherwise, by a director jointly with another director or the secretary.

LODGEMENT OF PROXY FORM

The proxy form, together with any power of attorney under which it is signed, may be delivered to the company at its registered address, 10 Murray Street, Hamilton, New South Wales 2303 or posted to the company at PO Box 413, Hamilton, New South Wales 2303. It may also be sent to the company by facsimile to (02) 4920 2878. It must be received no later than 10.00 am on Saturday 25 August 2018.



**INDEPENDENT EXPERT'S REPORT
HAMILTON SECURITIES LIMITED**

In relation to the approval of
issue of equity securities pursuant to
the acquisition of Sale Securities and
capital raising

24 July 2018

FINANCIAL SERVICES GUIDE

July 2018

This Financial Services Guide is issued in relation to an independent expert's report (**Report** or **IER**) prepared by BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (**BDOCF**) at the request of the directors (**Directors**) of Hamilton Securities Limited (**HSE** or **the Company**).

Engagement

The IER is intended to accompany the Notice of meeting and Explanatory Memorandum (**Transaction Document**) that is to be provided by the Directors of HSE to assist the Shareholders of HSE (**HSE Shareholders**) in determining whether to approve the issue of equity securities to the Vendors (**Sale Agreement**) and the issue of equity securities to pursuant to a capital raising (**Placement**), (together the **Proposed Transactions**).

Financial Services Guide

BDOCF holds an Australian Financial Services Licence (License No: 247420) (**Licence**). As a result of our IER being provided to you BDOCF is required to issue to you, as a retail client, a Financial Services Guide (**FSG**). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

Financial services BDOCF is licensed to provide

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

BDOCF provides financial product advice by virtue of an engagement to issue the IER in connection with the issue of securities of another person.

Our IER includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our IER (as a retail client) because of your connection with the matters on which our IER has been issued.

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

General financial product advice

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

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

An individual's decision in relation to voting on the Proposed Transactions described in the Transaction Document may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDOCF may receive

BDOCF will receive a fee based on the time spent in the preparation of the IER in the amount of approximately \$45,000 (plus GST and disbursements). BDOCF will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be

regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

Remuneration or other benefits received by our employees

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

Referrals

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

Associations and relationships

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. The directors of BDOCF may also be partners in BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDO East Coast Partnership, Chartered Accountants and Business Advisers is comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients. BDOCF's contact details are as set out on our letterhead.

BDOCF is unaware of any matter or circumstance that would preclude it from preparing the IER on the grounds of independence under regulatory or professional requirements. In particular, BDOCF has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and Australian Securities and Investments Commission (**ASIC**).

Complaints resolution

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Ltd, Level 11, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited (**FOS**). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDOCF is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited

GPO Box 3

Melbourne VIC 3001

Toll free: 1300 78 08 08

Email: info@fos.org.au

The Directors
Hamilton Securities Limited
10 Murray Street
HAMILTON NSW 2060

July 2018

Dear Directors

INDEPENDENT EXPERT'S REPORT

Introduction

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (**BDOCF, we, us or our**) has been engaged by the Directors (**Directors**) of Hamilton Securities Limited (**HSE or the Company**) to prepare an independent expert's report (**Report or IER**). The Directors have requested that our Report sets out our opinion as to:

- whether the issue of HSE Shares (**Consideration Securities**) to Dawney & Co Pty Ltd, Trepass Pty Ltd ATF DKML Super Fund, Auslese Investments Pty Ltd and John Holt & Hilary Jane Holt (the **Vendors**) to acquire ASX and NSX securities (**Sale Securities**) referred to as the **Sale Agreement**; and
- whether the issue of HSE Shares to Mercantile Investment Company Limited, Ronald and Rhonda Langley, EGP Capital Pty Ltd and Noontide Investments Pty Ltd (**the Placement, the Placement Securities**), (collectively referred to in this Report as the Proposed Transactions)

are fair and reasonable to the non-associated Shareholders of HSE (**Non-Associated Shareholders**).

Issuance of HSE Shares (Consideration Securities and Placement Securities)

This Report opines on whether approving the issue of HSE Shares pursuant to the Sale Agreement and the issue of HSE Shares in relation to the Placement is fair and reasonable to the Non-Associated Shareholders.

On 19 July 2018, HSE entered into a Sale Agreement with the Vendors, pursuant to HSE's acquisition of securities listed on the Australian Securities Exchange (ASX) and the National Stock Exchange of Australia (NSX) (Sale Securities) for consideration of HSE securities (Consideration Securities).

As per Resolution 5 of the Transaction Document, the Securities that will be transferred to the Company under the Sale Agreement are summarised below:

Entity	No. of securities
Horizon Oil Limited	6,250,000
NGE Capital Limited	674,999
APN Regional Property Fund	218,026

The Consideration Securities to be issued to the Vendors on completion of the Sale Agreement are set out below:

Vendors	Entitlement to Consideration Securities
Dawney & Co Pty Limited	6,069,114
Trepass Pty Limited ATF DKML Super Fund	1,897,059
Auslese Investments Pty Limited Fund	324,882
John Holt and Hilary Jane Holt	529,412
Total	8,820,467



In conjunction with and subject to the approval of execution of the Sale Agreement by HSE Shareholders, HSE will also undergo a capital raise via a Placement of a total of 7,994,118 shares at an issue price of \$0.17 to Mercantile Investment Company Limited (5,294,118 Shares), Ronald and Rhonda Langley (900,000 Shares), EGP Capital Pty Limited (900,000 Shares) and Noontide Investments Limited (900,000 Shares) (the **Placement**).

Entity	Placement Securities
Mercantile Investment Company Limited	5,294,118
Ronald and Rhonda Langley	900,000
EGP Capital Pty Limited	900,000
Noontide Investments Limited	900,000
Total	7,994,118
Issue price per security	\$0.17
Value of Placement Consideration	\$1,359,000

Mercantile is the holder of approximately 3,700,000 ordinary shares in Dawney & Co Pty Limited, or 36.63 % of the issued share capital and thereby on completion of the Sale Agreement will have a deemed interest in Dawney & Co Pty Limited's HSE Shares.

Trepass Pty Limited, Auslese Investments Pty Limited Fund and Dawney & Co Pty Limited share a common Director, Mitch Dawney. These entities are therefore considered to be Associated Vendors.

If the Proposed Transactions are completed, Mercantile as it is considered to be an associate of the Associated Vendors would increase its voting power in HSE Shares from no HSE Shares or 0 % to 13,585,171 HSE Shares or 71.67%.

Full details of the Sale Agreement and Placement are set out in the Transaction Document to be sent to the shareholders of HSE.

Summary of Opinion

This summary should be read in conjunction with the attached IER that sets out in full, the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

Fairness Assessment

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The value of the securities the subject of the offer is determined assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

In relation to the interpretation of RG111.11, ASIC have advised that the appropriate assessment is to compare:

- The fair market value of a Share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a Share post-transaction on a minority basis (being the offer price or consideration per RG111.11).

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the issue of the Consideration Securities and the Placement Securities.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

Pre and Post Fair market value assessment

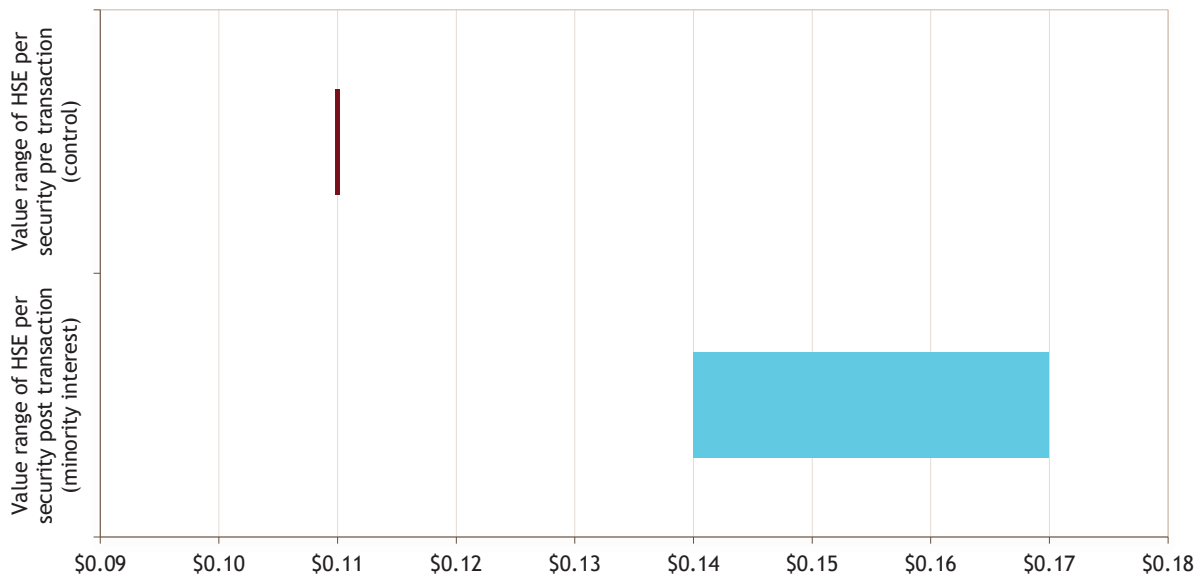
In our assessment, we have considered the impact of the issue of the Consideration Securities and the Placement Securities collectively.

We have formed our opinion in relation to fairness of the Proposed Transactions by comparing the:

- the fair market value of a HSE Share before completion of the Proposed Transactions on a controlling interest basis; and
- the fair market value of a HSE Share after completion of the Proposed Transactions on a minority interest basis.

A summary of our opinion is set out below:

Fair market value of HSE Share	Ref	Low	High
Value range of HSE per security pre transaction (control)		0.11	0.11
Value range of HSE per security post transaction (minority interest)		0.14	0.17
Conclusion		FAIR	



As set out above, our opinion is that the Proposed Transactions are fair to Non-Associated Shareholders.

Reasonableness Assessment

In accordance with paragraph 12 of RG 111, an offer is ‘reasonable’ if it is ‘fair’. An offer could be considered ‘reasonable’ if there are valid reasons to approve it, notwithstanding that it may not be regarded as ‘fair’.

We have assessed the reasonableness of the Proposed Transactions by considering the factors set out below:

Advantages	
Increase in investment portfolio	The Sale Securities to be acquired will increase the net asset position of the Company and the size of the Company’s capital base. The Sale Securities will also provide additional diversity to the Company’s investment portfolio.
Acquisition of listed investments	The Sale Securities will provide opportunities for HSE shareholders to receive future value from increases in the underlying value of the acquired securities and provide diversity to the existing assets of the Company. The portfolio of Sale Securities to be acquired by HSE could otherwise take time to acquire on market.
Capital injection	The Proposed Transactions provide HSE with a significant capital injection, increasing the scale of the Company, reducing liquidity risk and providing capital for further investment acquisitions. HSE holds minimal cash. There is a risk it may not have sufficient funds to continue

	operations without a capital injection. The Vendors have further advised that they are prepared to inject further capital into the Company to fund the Company's activities in circumstances where it considers that its further investment is in the interests of the Company and alternative sources of funding are not available on a cost-effective or commercial basis.
Disadvantages	
Substantial holding	Following completion of the Proposed Transactions Mercantile Investment Company and the Associated Vendors collective voting power in HSE would be 71.67% providing significant influence to exert over the Company and the ability to block special resolutions or transactions the may be favourable to Non-associated Shareholders.
Dilution	The Proposed Transactions will result in a dilution of existing Shareholder's shareholding and a decrease in voting power

After considering the above factors, our opinion is that the Proposed Transactions are reasonable to Non Associated Shareholders of HSE.

Other Matters

Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, BDOCF has not considered the effect of the Proposed Transactions on the particular circumstances of individual HSE shareholders. Some individual HSE shareholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in this IER. Accordingly, individual HSE shareholders may reach different conclusions as to whether or not approving the Proposed Transactions is fair and reasonable in their individual circumstances.

The decision of an individual HSE Shareholder in relation to approving the Proposed Transactions may be influenced by their particular circumstances and accordingly HSE Shareholders are advised to seek their own independent advice.

Approval or rejection of the Proposed Transactions is a matter for individual HSE Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. HSE Shareholders should carefully consider the Transaction Document. HSE Shareholders who are in doubt as to the action they should take in relation to the Proposed Transactions should consult their professional adviser.

Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in light of material information existing at the valuation date that subsequently becomes known to us.

Sources of Information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by HSE.

Under the terms of our engagement, HSE agreed to indemnify the partners, directors and staff (as appropriate) of BDO East Coast Partnership and BDOCF and their associated entities, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by HSE which is false or misleading or omits any material particulars, or arising from failure to supply relevant information.

Limitations

This IER has been prepared at the request of the Directors for the sole benefit of the Directors and HSE



Shareholders to assist them in their decision to approve or reject the Proposed Transactions. This IER is to accompany the Transaction Document to be sent to HSE Shareholders to consider the Proposed Transactions and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and HSE Shareholders without our written consent, and we accept no responsibility to any other person.

No extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Transaction Document. Apart from this IER, we are not responsible for the contents of the Transaction Document or any other document associated with the Proposed Transactions. We acknowledge that this IER may be lodged with regulatory authorities.

Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this IER is set out in **Appendix 1**.

Financial Services Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or Share issues. A financial services guide is attached to this IER.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

A stylized, handwritten signature in black ink, consisting of several overlapping, sweeping strokes that form a long, horizontal shape.

David McCourt
Director

A handwritten signature in black ink, featuring a large, circular initial 'D' followed by several loops and a trailing stroke.

Daniel Coote
Director

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1. PURPOSE AND BACKGROUND

1.1. Purpose

We have been appointed by the Directors of HSE to prepare an IER setting out our opinion as to whether approving the issue of the Consideration Securities and the Placement Securities (Proposed Transactions) is fair and reasonable to the Non-Associated Shareholders.

This report is to accompany the Notice of Meeting and Explanatory Memorandum (**Transaction Document**) required to be provided to the Shareholders of HSE entitled to vote on the Proposed Transactions and has been prepared to assist the Non-Associated Shareholders in their considerations of whether or not to approve the Proposed Transactions.

The Proposed Transactions are discussed further below.

1.2. Proposed Transactions

On 19 July 2018, HSE entered into a Sale Agreement with Dawney & Co Pty Ltd, Trepass Pty Ltd, ATF DKML Super Fund, Auslese Investments Pty Ltd and John Holt & Hilary Jane Holt (the **Vendors**), pursuant to HSE's acquisition of ASX and NSX securities (**Sale Securities**) for consideration of HSE securities (**Consideration Securities**).

As per Resolution 5 of the Transaction Document, the Consideration Securities that will be transferred to the Company under the Sale Agreement are summarised below:

Entity	No. of Securities
Horizon Oil Limited	6,250,000
NGE Capital Limited	674,999
APN Regional Property Fund	218,026

The Consideration Securities to be issued to the Vendors on completion of the Sale Agreement are set out below:

Vendors	Entitlement to Consideration Securities
Dawney & Co Pty Limited	6,069,114
Trepass Pty Limited ATF DKML Super Fund	1,897,059
Auslese Investments Pty Limited Fund	324,882
John Holt and Hilary Jane Holt	529,412
Total	8,820,467

In conjunction with and subject to the approval of execution of the Sale Agreement by HSE Shareholders, HSE will also undergo a capital raise of \$1,359,000 via a Placement of a total of 7,994,118 shares at an issue price of \$0.17 to Mercantile Investment Company Limited (5,294,118 Shares), Ronald and Rhonda Langley (900,000 Shares), EGP Capital Pty Limited (900,000 Shares) and Noontide Investments Limited (900,000 Shares) (the **Placement**).

Entity	Placement Securities
Mercantile Investment Company Limited	5,294,118
Ronald and Rhonda Langley	900,000
EGP Capital Pty Limited	900,000
Noontide Investments Limited	900,000
Total	7,994,118
Issue price per security	\$0.17
Value of Placement Consideration	\$1,359,000

Mercantile is the holder of approximately 3,700,000 ordinary shares in Dawney & Co Pty Limited, or 36.63 % of the issued share capital and thereby on completion of the Sale Agreement will have a deemed interest in Dawney & Co Pty Limited's HSE Shares.

Trepass Pty Limited, Auslese Investments Pty Limited Fund and Dawney & Co Pty Limited share a common Director, Mitch Dawney. These entities are therefore considered to be Associated Vendors.

If the Proposed Transactions are completed, Mercantile as it is considered to be an associate of the Associated Vendors would increase its voting power in HSE Shares from no HSE Shares or 0 % to 13,585,171 HSE Shares or 71.67%.

1.2.1. Pro forma shareholding

The following table shows the pro forma HSE shareholding before and after the issue of the Consideration Securities and the Placement Securities.

Shareholder	Pre Proposed Transactions		Acquisition of Sale Securities No. Shares	Placement Shares No. Shares	Post	
	No. Shares	%			No. Shares	%
Existing shareholders	2,138,831	100.0%	-	-	2,138,831	11.3%
Dawney & Co Pty Ltd ¹	-	-	6,069,114	-	6,069,114	32.0%
Trepass Pty Ltd ¹	-	-	1,897,059	-	1,897,059	10.0%
Auslese Investments Pty Ltd ¹	-	-	324,882	-	324,882	1.7%
Mercantile Investment Company ²	-	-	-	5,294,118	5,294,118	27.9%
Associated Vendors & Associates			8,291,055	5,294,118	13,585,173	71.67%
John & Hilary Holt	-	-	529,412	-	529,412	2.8%
Ronald & Rhonda Langley	-	-	-	900,000	900,000	4.7%
EGP Capital Pty Ltd	-	-	-	900,000	900,000	4.7%
Noontide Investments Ltd	-	-	-	900,000	900,000	4.7%
Total	2,138,831	100.0%	8,820,467	7,994,118	18,953,416	100.0%

Source: Transaction Document, and BDO analysis

1. Associated Vendors via common Director

2. Mercantile Investment Company owns 36.63% of Dawney & Co Pty Limited

2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether approving the Proposed Transactions are fair and reasonable to the Non-Associated Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

Our assessment involved determining the fair market value of various securities, assets and liabilities. For the purposes of our opinion, the term fair market value is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

2.2. Summary of Regulatory Requirements

2.2.1. Section 611 of the Act

Issue of the Consideration Securities and the Placement Securities may result in Mercantile Investment Company and the Associated Vendors increasing their collective voting power in HSE from 0% to 71.67%.

Section 606 of the Act expressly prohibits transactions that result in a person or entity that, with their associates, increases their voting power from:

- 20% or below to more than 20%; or
- A point that is above 20% to below 90%,

without making a full takeover offer to all Shareholders or otherwise falling within another exception (such as 611 of the Act).

Item 7 of Section 611 of the Act provides an exception to the prohibition on the basis that the acquisition is approved by resolution at a general meeting. RG 74 issued by ASIC sets out the obligation to supply Shareholders with all information that is material by either:

- The directors undertaking a detailed examination of the proposal themselves, if they consider that they have sufficient expertise; or
- By commissioning an independent expert's report.

In compliance with the above the Directors have commissioned this IER regarding the 'fairness and reasonableness' to the Non-Associated Shareholders of approving the Proposed Transactions.

2.2.2. Section 208 of the Act

Section 208 of Chapter 2E of the Act requires a company to seek shareholder approval before giving a financial benefit to a related party unless the benefit falls within an exception provided for in Section 210 of the Act.

Regulatory Guide 76: Related party transactions (**RG 76**) states that it is necessary for entities to include a valuation from an independent expert with a notice of meeting for member approval under Chapter 2E of the Act, where:

- the financial benefit is difficult to value;
- the transaction is significant from the point of view of the entity; or
- the independent directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

2.3. Basis of Assessment

In determining whether approving the Proposed Transactions are fair and reasonable to the Non-associated Shareholders, we have had regard to:

- RG 111 'Content of expert reports'
- Regulatory Guide 112 'Independence of experts' (**RG 112**).

In particular, RG 111 establishes guidelines in respect of independent expert reports under the Act.

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- Is the offer 'fair'?
- Is it 'reasonable'?

The terms fair and reasonable are regarded as separate elements and are not regarded as a compound phrase.

2.3.1. Fair

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The value of the securities the subject of the offer is determined assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

If the Proposed Transactions are approved, Mercantile and Associated Vendors may own up to 13,585,171 HSE Shares representing a 71.67% equity interest in HSE based on the current number of Shares on issue.

In relation to the interpretation of RG111.11, ASIC have advised that the appropriate assessment is to compare:

- The fair market value of a Share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a Share post-transaction on a minority basis (being the offer price or consideration per RG111.11).

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7

which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transactions.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

The Proposed Transactions are fair if the fair market value of a HSE Share after completion of the Proposed Transactions on a minority basis is equal to or greater than the fair market value of a HSE Share before completion of the Proposed Transactions on a controlling interest basis.

2.3.2. Reasonable

In accordance with paragraph 12 of RG 111, an offer is 'reasonable' if it is 'fair'. An offer could be considered 'reasonable' if there are valid reasons to approve it, notwithstanding that it may not be regarded as 'fair'.

RG 111.13 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- The bidder's pre-existing voting power in securities in the target.
- Other significant security holding blocks in the target.
- The liquidity of the market in the target's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target.
- Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc.
- The likely market price if the offer is unsuccessful.
- The value to an alternative bidder and likelihood of an alternative offer being made.

Further, RG 111.26 states that an issue of shares for cash may have other benefits that should be considered in deciding whether the transaction is reasonable. These benefits may include:

- The provision of new capital to exploit business opportunities
- A reduction in debt and interest payments, or
- A needed injection of working capital.

2.3.3. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transactions. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO East Coast Partnership or BDOCF and any of the parties to the Proposed Transactions.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- We have been appointed as independent expert for the purposes of providing an IER for the Transaction Document.
- That we have relied on information provided by the board of Directors of HSE (Board) and management of HSE and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Board in relation to the completeness and accuracy of

the information provided to us for the purpose of our IER.

2.4. Special Value

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

2.5. Reliance on Information

This IER is based upon financial and other information provided by the Board and management of HSE. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether approving the Proposed Transactions are fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, HSE has agreed to indemnify BDOCF and BDO East Coast Partnership, and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

We acknowledge that this IER may be lodged by the Board with regulatory and statutory bodies and will be included in the Transaction Document to be sent to the HSE Shareholders. The Board acknowledges that our IER has been prepared solely for the purposes noted in the Transaction Document and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of HSE. We understand that the Board has been advised by legal, accounting, tax and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Board or their advisors.

We note that the IER does not deal with the individual investment circumstances of HSE Shareholders. Some individual HSE Shareholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transactions are fair and reasonable. An individual HSE Shareholder's decision in relation to the Proposed Transactions may be influenced by their particular circumstances and, therefore, HSE Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Transaction Document or any other document. We have provided consent for inclusion of the IER in the Transaction Document. Our consent and the Transaction Document acknowledge that we have not been involved with the issue of the Transaction Document and that we accept no responsibility for the Transaction Document apart from the IER.

2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- Assumptions outlined in the valuation sections.
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed.
- Information sent out in relation to the Proposed Transactions to HSE Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects.
- Publicly available information relied on by us is accurate, complete and not misleading.
- If the Proposed Transactions are implemented, that they will be implemented in accordance with the stated terms.
- The legal mechanisms to implement the Proposed Transactions are correct and effective.

3. PROFILE OF HSE

3.1. Company overview

Hamilton Securities Limited (HSE) is a National Stock Exchange of Australia (NSX) listed investment company that was formed to invest in distressed debt and equity securities, and other illiquid securities.

HSE has traditionally generated revenue from the acquisition and sale of distressed debt and equity assets.

The Company has recently undertaken share buybacks and has explored ways in which to return capital to shareholders in light of limited investment opportunities. In December 2017, the Company implemented a capital reduction by returning 90 cents per ordinary share to each Shareholder, returning a total of \$1,924,947.90 to Shareholders.

3.2. Directors and management

The current board of directors consists of the following individuals:

Director Name	Capacity
Steven Pritchard	Executive Chairman
Giles Craig	Executive Director
Frederick Woollard	Executive Director
Gordon Elkington	Executive Director

Source: 2017 annual report

If the Proposed Transactions are approved Mitchell Dawney and Kerry Daly will be appointed as Directors of HSE.

3.3. Capital structure and ownership

As at 31 December 2017, the Company had the following securities on issue:

Class	Number of shares
Ordinary shares	2,138,831

Source: 2017 annual report

3.4. Historical financial information

3.4.1. Financial performance

Historical income statements of HSE for the financial year ended 30 June 2017 and the half year ended 31 December 2017 respectively are set out below.

\$	FY17	HY18
Income from deposits	26,373	12,403
Gain on disposal of investment	220,587	-
Total income from ordinary activities	246,960	12,403
Share of net loss of equity accounted investment	-	-
Administration expenses	(62,781)	(51,039)
Directors fees	(40,000)	-
Operating loss before income tax	144,179	(38,636)
Income tax (expense) benefit relating to ordinary activities	(4,460)	(30,584)
Profit/(Loss) attributable to members of the company	139,719	(69,220)
Other comprehensive income for the half year	-	-
Total comprehensive income for the half year	139,719	(69,220)

Source: 2017 annual report, 2018 half year report

We note the following regarding the Company's financial performance:

1. In FY17, HSE sold its investment in Asset Resolution Limited upon its listing on the NSX, realising a profit of \$220,587

3.4.2. Historical statements of financial position

Historical statements of financial position for HSE for the financial year ended 30 June 2017 and the half year ended 31 December 2017 are set out below:

\$	FY17	HY18
Assets		
Cash and cash equivalents	2,358,089	310,831
Trade and other receivables	1,086	2,545
Deferred tax asset	30,584	-
Total assets	2,389,759	313,376
Liabilities		
Trade and other payables	25,827	49,101
Total liabilities	25,827	49,101
Net assets	2,363,932	264,275

Source: 2017 annual report, 2018 half year report

We note the following regarding HSE's historical balance sheets:

1. HSE's cash and cash equivalents reduced significant in the six months to 31 December 2017 as a result of a capital reduction. The Company returned 90 cents per ordinary share to each Shareholder, returning a total of \$1,924,947.90 in capital.

3.5. Share price history

Details of the Company's share price history and trading volumes are outlined below:

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume '000	% of issued capital
1 month	0.00	0.03	0.03	5.10	0.2%
3 months	0.00	0.03	0.03	5.10	0.2%
6 months	0.00	0.03	0.03	6.60	0.3%
12 months	0.00	0.91	0.73	33.00	1.5%

Source: NSX

As indicated in the table above, HSE has experienced limited trading volume, with less than 2% of issued capital being exchanged in the 12 months prior to the Valuation Date.

4. PROFILE OF SECURITIES TO BE ACQUIRED BY HSE

As per Resolution 5 of the Transaction Document, the Consideration Securities that will be transferred to the Company under the Sale Agreement are summarised below:

Entity	No. of Shares
Horizon Oil Limited	6,250,000
NGE Capital Limited	674,999
APN Regional Property Fund	218,026

4.1. Horizon Oil Limited

4.1.1. Company overview

Horizon Oil (HZN) is an ASX-listed oil and gas exploration, development and production company, incorporated and domiciled in Australia.

Horizon Oil's portfolio is comprised of petroleum interests in China, New Zealand and Papua New Guinea:

- 26.95% interest in Beibu Gulf oil fields, offshore China
- 26% interest in Maari/Manaia oil fields, offshore New Zealand
- Gas and condensate resources, onshore Papua New Guinea

4.1.2. Historical financial information

4.1.3. Financial performance

Historical income statements of HZN for the financial year ended 30 June 2017 and the half year ended 31 December 2017 respectively are set out below.

US\$'000	FY17	HY18
Revenue	68,534	36,428
Cost of sales	(43,768)	(22,780)
Gross profit	24,766	13,648
Other revenue/other income	15	217
General and administrative expenses	(5,586)	(2,964)
Insurance expense	(1,240)	
Exploration and development expenses	(1,250)	(1,801)
Impairment of non-current assets	-	-
Finance costs	(13,081)	(16,420)
Unrealised movement in value of convertible bonds conversion rights	530	-
Loss before income tax expense	4,154	(7,320)
NZ royalty tax expense	(512)	(304)
Income tax expense	(3,978)	(1,920)
Loss for the period	(336)	(9,544)
Other comprehensive income/(loss)		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges	1,612	(5,629)
Total comprehensive income/(loss) for the half year	1,276	(15,173)

Source: 2017 annual report, 2018 half year report

4.1.4. Historical statements of financial position

Historical statements of financial position for HZN for the financial year ended 30 June 2017 and the half year ended 31 December 2017 are set out below:

US\$'000	FY17	HY18
Current assets		
Cash and cash equivalents	24,529	31,672
Receivables	6,376	8,691
Inventories	1,497	1,866
Current tax receivable	47	-
Derivative financial instruments	2,191	-
Other assets	1,000	646
Total current assets	35,640	42,875
Non-current assets		
Deferred tax assets	4,122	4,988
Plant and equipment	903	736
Exploration phase expenditure	51,940	56,359
Oil and gas assets	179,098	170,173
Total non-current assets	236,063	232,256
Total assets	271,703	275,131
Current liabilities		
Payables	9,950	17,654
Current tax payable	354	329
Borrowings	22,132	31,910
Derivative financial instruments	-	3,767
Total current liabilities	32,436	53,660
Non-current liabilities		
Payables	28	-
Deferred tax liability	17,705	18,338
Derivative financial instruments	-	1,589
Other financial liabilities	2,531	11,700
Borrowings	102,666	88,104
Provisions	9,611	9,782
Total non-current liabilities	132,541	129,513
Total liabilities	164,977	183,173
Net assets	106,726	91,958

Source: 2017 annual report, 2018 half year report

4.1.5. Share price history

Details of the Company's share price history and trading volumes are outlined below:

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of issued capital
1 month	0.13	0.15	0.14	17.39	1.3%
3 months	0.12	0.16	0.14	73.57	5.6%
6 months	0.09	0.16	0.13	138.93	10.7%
12 months	0.04	0.16	0.11	245.93	18.9%

Source: ASX

As indicated in the table above, HZN has experienced limited trading volume, with less than 20% of issued capital being exchanged in the 12 months prior to the Valuation Date.

4.2. NGE Capital Limited

4.2.1. Company overview

NGE Capital Limited (NGE) is a Listed Investment Company (LIC) which allows investors to invest in a concentrated, high conviction, professionally managed portfolio of financial assets.

NGE's portfolio consist of the following major holdings:

- Mineral Deposits (ASX:MDL) - MDL owns a 50% stake in a Senegalese mineral sands joint venture and a titanium and iron ilmenite upgrading facility in Norway
- Eureka Group Holdings (ASX:EGH) - Provider of low cost rental accommodation to independent retirees who are reliant on the Government pension and rent assistance. The Company owns 29 villages and manages a further 9
- Millennium Services (ASX:MIL) - Provider of cleaning, security and low-level maintenance services to retail shopping centres, offices and schools in Australia and New Zealand
- Powerwrap Limited - an unlisted public company providing investment portfolio administration and services

4.2.2. Historical financial information

4.2.3. Financial performance

Historical income statements of NGE for the financial year ended 30 June 2017 and the half year ended 31 December 2017 respectively are set out below.

\$'000	FY16	FY17
Revenue	337	735
Change in fair value of financial instruments held at fair value through profit or loss	2,164	5,351
Employee benefits expense	(487)	(764)
(Loss) from foreign exchange differences	(335)	(69)
Other expenses	(834)	(367)
Profit before income tax	845	4,886
Income tax expense	-	-
Profit from continuing operations after income tax	845	4,886
(Loss) from discontinued operations after income tax	(154)	(205)

Source: 2017 annual report

4.2.4. Historical statements of financial position

Historical statements of financial position for NGE for the financial years ended 31 December 2016 and 2017 are set out below:

\$'000	FY16	FY17
Assets		
Cash and cash equivalents	14,816	5,296
Trade and other receivables	383	22
Financial assets held at fair value through profit or loss	5,527	18,545
Other assets	40	41
Plant and equipment	1	-
Investments accounted for using the equity method	-	-
Other long term assets	84	110
Total assets	20,851	24,014
Liabilities		
Trade and other payables	246	379
Provisions	5	10
Total liabilities	251	389
Net assets	20,600	23,625

4.2.5. Share price history

Details of the Company's share price history and trading volumes are outlined below:

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of issued capital
1 month	0.66	0.71	0.69	0.42	1.1%
3 months	0.42	0.73	0.61	3.55	9.5%
6 months	0.42	0.73	0.54	6.44	17.2%
12 months	0.42	0.73	0.50	11.78	31.5%

Source: ASX

As indicated in the table above, NGE has experienced limited trading volume, with 31.5% of issued capital being exchanged in the 12 months prior to the Valuation Date.

4.3. APN Regional Property Fund

4.3.1. Company overview

The APN Regional Property Fund (APN) is listed on the National Stock Exchange of Australia (NSX) and is invested in a portfolio of office properties located in regional NSW.

As at 31 December 2017, the fund was invested in two office buildings located in Newcastle, New South Wales with a collective property value of \$48.6 million.

4.3.2. Historical financial information

4.3.3. Financial performance

Historical income statements of APN for the financial year ended 30 June 2017 and the half year ended 31 December 2017 respectively are set out below.

\$'000	FY17	HY18
Income		
Rental income	5,280	2,564
Interest	19	10
Net changes in the fair value of investment properties	1,757	3,211
Other income	22	-
Total income	7,078	5,785
Expenses		
Investment management fee	352	183
Property management expenses	27	508
Other expenses	1,186	85
Auditor's remuneration	27	6
Finance costs	549	254
Total expenses	2,355	1,036
Net profit	4,723	4,749

Source: 2017 annual report, 2018 half year report

4.3.4. Historical statements of financial position

Historical statements of financial position of APN for the financial year ended 30 June 2017 and the half year ended 31 December 2017 are set out below:

\$'000	FY17	HY18
Assets		
Cash and cash equivalents	2,028	2,140
Other receivables	69	279
Investment properties	45,300	48,600
Total assets	47,397	51,019
Liabilities		
Payables	418	533
Distribution payable	626	626
Interest bearing liabilities	14,971	14,981
Total liabilities	16,015	16,140
Net assets	31,382	34,879

Source: 2017 annual report, 2018 half year report

4.3.5. Share price history

Details of the Company's share price history and trading volumes are outlined below:

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of issued capital
1 month	0.00	1.11	1.11	0.03	0.1%
3 months	0.00	1.11	1.10	0.08	0.3%
6 months	0.00	1.15	1.15	2.29	8.7%
12 months	0.00	1.15	1.11	3.20	12.1%

Source: NSX

As indicated in the table above, APN has experienced limited trading volume, with approximately 12% of issued capital being exchanged in the 12 months prior to the Valuation Date.

5. VALUATION METHODOLOGY

5.1. Fairness assessment overview

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The value of the securities the subject of the offer is determined assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

In relation to the interpretation of RG111.11, ASIC have advised that the appropriate assessment is to compare:

- The fair market value of a share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a share post-transaction on a minority basis (being the offer price or consideration per RG111.11).

Accordingly, to undertake this comparison we have undertaken an assessment of the value of a HSE Share before and after the issue of the Consideration Securities and the Placement Securities.

The valuation methods for the above analyses are considered below.

5.2. Valuation methods

Details of common methodologies for valuing businesses and assets are included at Appendix 3. The principal methodologies that can be used are as follows:

- Discounted cash flow (DCF)
- Capitalisation of future maintainable earnings (FME)
- Net asset value (NAV)
- Quoted market price basis (QMP).

Set out below is a discussion of the valuation method we consider appropriate for the purposes of undertaking our valuation assessment of HSE.

5.3. Selected valuation methods for HSE

In accordance with RG 111.15, we have considered the fair market value of HSE on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid. This approach does not take into account the particular circumstances of any specific transaction.

We have assessed the equity value of an HSE security using the NAV method and QMP method. We have chosen these methodologies for the following reasons:

- Listed investment companies are primarily passive investment vehicles with the majority of their value determined by the underlying assets they hold. Therefore, listed investment companies are commonly valued using the NAV approach, which involves aggregating the market value of the individual assets and liabilities.
- HSE is listed on the NSX and we have therefore analysed the trading and liquidity of HSE. Given the stocks limited liquidity we have focused our valuation assessment primarily on the NAV methodology.

We also consider these methodologies to be appropriate to value the Sale Securities to be acquired by HSE.

5.4. Net Asset Value (NAV)

The NAV approach is considered appropriate where the majority of assets consist of cash or passive investments such as listed investments. The assets and liabilities of the relevant entity under this approach are valued at fair market value and the net value forms the basis for the entity's value.

We have assessed the fair market value of HSE's net assets based on a "sum-of-parts" approach starting with the assets and liabilities set out in HSE's audited statement of financial position as at 31 December 2017 and adjusting for transaction costs in relation to the Proposed Transactions (Pro Forma).

This approach arrives at a control value of an HSE Share.

5.5. Quoted Market Price (QMP)

HSE is listed on the NSX and has sufficient market history for a quoted market price (QMP) valuation.

After analysis of the NSX quoted market price we derived a fair market value range, which reflects a minority interest price for an HSE security. A control premium is applied to the minority value to arrive at a control value.

In assessing HSE's security price performance on the NSX we have had particular regard to the following:

- The level of trading activity of the HSE securities (i.e. the volume of trades in the market as a percentage of the total securities and the frequency of the trades);
- The value of the trading activity and number of days of trading activity; and
- Recent key developments and market announcements.

We have reviewed the following factors relating to the trading activity of HSE securities on the ASX:

- The daily high, low and closing security price of trades;
- The daily volume of the trades;
- The volume weighted average price (VWAP); and
- The total value of securities traded.

HSE is thinly traded and we consider the QMP method to be a secondary valuation methodology.

5.6. Other valuation considerations

5.6.1. Future events

The business of HSE to be considered in this valuation is that which exists at the current date.

Growth potentials, which may result from new activities, business initiatives, acquisitions and the like (which are not capable of estimation), is not within the scope of this valuation.

5.6.2. Control premium

As indicated in Section 4.1 above, RG111.11 suggests the appropriate assessment involves determining the fair market value of a Share pre-transaction on a control basis. Investment fundamentals dictate that the value of 100% of a company is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings.

We note that the NAV method is inherently a control based valuations while the QMP valuation method assesses the value of minority interest. Therefore, we have applied a premium for control in the QMP method only. Refer to section 6.3 where this has been discussed in further detail.

5.6.3. Valuation in Accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

6. VALUATION OF HSE PRIOR TO THE PROPOSED TRANSACTIONS

6.1. NAV Valuation of HSE

The fair market value of HSE's net assets is primarily based on a "sum-of-parts" assessment of HSE's assets and liabilities set out in HSE's audited statement of financial position as at 31 December 2017. The following assets and liabilities have been assessed independently, and then aggregated to arrive at the equity value (on a control basis) of HSE:

We have assessed the valuation based on HSE's net tangible assets (NTA) as at 31 December 2017, which reflects the fair market value of HSE's assets, interest bearing liabilities and other liabilities.

To assist our analysis, Management has also provided unaudited management accounts for the financial period ended 31 May 2018.

As a result of our review of the available financial information and discussions with HSE Management, we have made the following adjustment as part of the NAV valuation:

- HSE estimates it will incur approximately \$25,000 in transaction costs in connection with the Proposed Transactions. We have adjusted HSE's reported NTA as at 31 December 2017 for these costs.

Our assessment of the fair market value of HSE on a control basis, prior to the Proposed Transactions, is set out below:

\$	Note
Reported NTA value as at 31 December 2017	264,275
Transaction costs	(25,000)
Equity value - 100% controlling interest	239,275
Per security	
Securities on issue	2,138,831
Value per security (\$) - 100% controlling interest	0.11

Source: 2018 half year report and BDOCF analysis

Based on the above, we have estimated the fair market value of a HSE security, using a NAV valuation methodology on a control basis, to be \$0.11 per security.

6.1.1. Pro forma statement of financial position

We have made adjustments to the reported balance sheet of HSE as at 31 December 2017 in order to reflect material movements (advised to us by management) in connection with the Proposed Transaction.

\$	HY18	Adjustments	NAV
Assets			
Cash and cash equivalents	310,831		310,831
Trade and other receivables	2,545		2,545
Deferred tax asset	-		-
Total assets	313,376		313,376
Liabilities			
Trade and other payables	49,101	25,000	74,101
Total liabilities	49,101		74,101
Net assets	264,275		239,275

Source: 2018 half year report and BDOCF analysis

We have made the following adjustments to the reported statement of financial position of HSE as at 31 December 2017:

1. HSE estimates it will incur approximately \$25,000 in transaction costs in connection with the Proposed Transactions. We have adjusted HSE's reported NTA as at 31 December 2017 for these costs.

6.1.2. Securities outstanding

There are currently 2,138,831 securities on issue in HSE.

6.2. QMP Valuation of HSE

HSE is listed on the NSX. In order to assess the fair value, we have considered the movement in HSE's security price, VWAP and volumes traded during the past year.

After the analysis of the ASX quoted market price we have derived a fair market value range, which reflects a minority interest price for an HSE security. This is then adjusted for a control premium in order to determine HSE's equity value on a control basis.

In assessing HSE's security price performance on the ASX we have had particular regard to the following:

- The level of trading activity of the HSE securities;
- The value of the trading activity and number of days of trading activity; and
- Recent key developments and market announcements.

6.2.1. VWAP per HSE security

We have also considered the ASX quoted market price for HSE which reflects a minority interest price per security. The table below summarises trades over the twelve-month period to 25 June 2018.

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume '000	% of Issued capital
1 month	0.00	0.03	0.03	5.10	0.2%
3 months	0.00	0.03	0.03	5.10	0.2%
6 months	0.00	0.03	0.03	6.60	0.3%
12 months	0.00	0.91	0.73	33.00	1.5%

We note the following with respect to the trading in HSE securities during the 12 months to 25 June 2018:

- HSE securities traded between a low of \$0.03 per security on 13 March 2018 and a high of \$0.90 per security on 31 October 2017.
- The company paid the majority of its cash to shareholders via a capital repayment of \$0.90 per share (\$1,924,947.90) in December 2017.
- The traded volume of securities over the 12 months to 25 June 2018 was approximately 1.5% of the

total weighted average number of securities on issue.

- Over the year analysed, there were a total of 217 trading days. HSE securities were actively traded for only 7 of those days.

Our assessment of the fair market value of HSE on a control basis, based on the QMP methodology is set out below:

\$	Low	High
HSE security - NSX Pricing (minority interest) per security (\$)	0.03	0.03
Premium for control	20%	20%
HSE security - NSX Pricing (control interest) per security (\$)	0.04	0.04

We consider the volume of securities traded to be too insufficient for QMP assessment to be adopted as a primary valuation methodology.

6.3. Premium for Control

Investment fundamentals dictate that the value of 100% of an entity is normally greater than the sum of values attributable to the individual securities of that entity based on transactions of minority holdings.

The difference between the value of 100% of an entity and the total value of minority interests is referred to as a premium for control taking into account control and synergistic benefits for the acquirer.

Control of an entity by a shareholder gives that shareholder rights to which minority security holders are not entitled, including control of the entity's policies and strategies, and use of cash flows.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the entity being acquired.

A premium for control is applicable when an acquisition would give rise to benefits such as:

- The ability to realise synergistic benefits;
- Access to cash flows;
- Access to tax benefits; and
- Control of the board of directors of the company.

Therefore, a transaction premium would typically include a premium for control as well as potential buyer specific synergies.

Evidence from studies indicates that premiums paid on successful takeovers have frequently been in the range of 20% to 40% in Australia and that the premiums vary significantly by transaction. We have analysed the average premiums paid for completed acquisitions since 1 January 2010 in order to assess an appropriate control premium.

The following table presents premiums on completed takeovers relative to the share price one day prior to the offer:

Year	Number of Transactions	Average Deal Value (AUD\$m)	Average premium
2017	12	1482	15%
2016	33	784	28%
2015	36	782	34%
2014	35	673	22%
2013	37	701	26%
2012	43	302	30%
Average		787	26%
Median		742	27%

Source: Mergermarket and BDO analysis

The following table presents premiums on completed takeovers relative to the share price one month prior to the offer:

Year	Number of Transactions	Average Deal Value (AUD\$m)	Average premium
2017	11	1609	10%
2016	34	762	34%
2015	37	762	38%
2014	35	673	29%
2013	37	706	32%
2012	43	302	34%
Average		802	30%
Median		734	33%

Source: Mergermarket and BDO analysis

In arriving at an appropriate premium for control to apply, we note that buyers would generally assess the following considerations:

- Level of liquidity in the trade of the target's securities;
- Synergistic value;
- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management
- Nature and magnitude of business opportunities not currently being exploited; and
- Ability to integrate the target into the acquirer's business

It is our view that premiums paid will invariably include an element of value attributable to buyer specific synergies, however, it is not possible to objectively determine which part of a specific premium is attributable to premium for control and which part is attributable to buyer specific synergies.

The RG111.11 definition of 'value' is consistent with general concepts of 'fair market value' which excludes special value attributable to buyer specific synergies. Therefore, the control premium to be applied in consideration of a fairness assessment usually sits below the range of observable transaction premiums.

We have applied a control premium of 20% in our application assessment of value of HSE (and the Sale Securities). This control premium has been selected based on judgement and reflecting a discount to the range of premiums observed to account for buyer specific synergies. We are also of the view that due to its size and recent financial performance, HSE would be unlikely to attract a control premium at the high end of the premiums observed.

6.4. Conclusion as to the Value of HSE prior to the Proposed Transaction on a control basis

Based on the above, we have concluded the per-share equity value attributable to the owners of HSE before the Proposed Transactions (on a control basis) to be \$0.11. This adopted value has been based on the NAV primary methodology.

\$	Low	High
Net asset value (NAV) valuation method	0.11	0.11
Quoted market prices (QMP) valuation method	0.04	0.04
Adopted value range of HSE per security (control)	0.11	0.11

7. VALUATION OF HSE POST THE PROPOSED TRANSACTIONS

7.1. Overview

We have formed our opinion in relation to fairness of the Proposed Transactions by comparing the:

- The fair market value of a HSE Share before completion of the Proposed Transactions on a controlling interest basis; and
- The fair market value of a HSE Share after completion of the Proposed Transactions on a minority interest basis.

We have assessed the latter via sum of the parts approach, aggregating the value of HSE post the Proposed Transactions (on a minority basis), plus the value of Sale Securities (on a minority basis) assets acquired by the issue of the Consideration Securities and the cash received from the issue of the Placement Securities.

We have assessed the equity value of an HZN, NGE and APN security using the NAV method and QMP method. We have chosen these methodologies for the following reasons:

- The industries that the Sale Securities entities operate in (Oil and gas, listed investments and property) often have the majority of their value determined by the underlying assets they hold. Therefore, companies in these industries are commonly valued using the NAV approach, which involves aggregating the market value of the individual assets and liabilities.
- The three Sale Securities entities are listed and we have therefore analysed the trading and liquidity of HSE. Given all three stocks limited liquidity we have focused our valuation assessment primarily on the NAV methodology.

7.2. Value of HSE post the Proposed Transactions (minority interest)

We have concluded the per-share equity value attributable to the owners of HSE post the Proposed Transaction (on a minority basis) ranges from 0.14 to 0.17, as indicated below:

AS	Ref	Low	High
Value range of HSE per security post transaction (minority interest)			
HSE equity value (100% controlling interest)		239,275	239,275
Minority discount		16.70%	16.70%
HSE equity value (minority interest)		170,161	170,161
Sale Securities to be acquired by HSE			
Assessed value of HZN Sale Securities		470,674	937,500
Assessed value of NGE Sale Securities		354,758	452,249
Assessed value of APN Sale Securities		240,175	250,730
Total value of Sale Securities		1,065,607	1,640,479
Cash received via Placement		1,359,000	1,359,000
HSE equity value post transaction (minority interest)		2,594,768	3,169,640
Securities on issue post transaction		18,953,416	18,953,416
Value range of HSE per security post transaction (minority interest)		0.14	0.17

7.3. Value of HZN

7.3.1. QMP Valuation

HZN is listed on the ASX. In order to assess the fair value, we have considered the movement in HZN's security price, VWAP and volumes traded during the past year.

After the analysis of the ASX quoted market price we have derived a fair market value range, which reflects a minority inherent price for an HZN security.

In assessing HZN's security price performance on the ASX we have had particular regard to the following:

- The level of trading activity of the HZN securities;
- The value of the trading activity and number of days of trading activity; and

- Recent key developments and market announcements.

7.3.2. VWAP per HZN security

We have also considered the ASX quoted market price for HSE which reflects a minority interest price per security. The table below summarises trades over the twelve-month period to 25 June 2018.

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of issued capital
1 day	0.14	0.14	0.14	0.31	0.0%
1 week	0.14	0.15	0.14	3.95	0.3%
1 month	0.13	0.15	0.14	17.39	1.3%
3 months	0.12	0.16	0.14	73.57	5.6%
6 months	0.09	0.16	0.13	138.93	10.7%
12 months	0.04	0.16	0.11	245.93	18.9%

We note the following with respect to the trading in HZN securities during the 12 months to 25 June 2018:

- HZN securities traded between a low of \$0.04 per security in late June 2017 and a high of \$0.16 per security in May 2018.
- The traded volume of securities over the 12 months to 25 June 2018 was approximately 18.9% of the total weighted average number of securities on issue.
- Over the year analysed, there were a total of 249 trading days, with volume traded on each of these days.

Our assessment of the fair market value of HZN, based on the QMP methodology is set out below:

\$	Low	High
HZN security - ASX Pricing (minority interest) per security (\$)	0.11	0.14

7.3.3. NTA Valuation

The fair market value of HZN's net assets is primarily based on a "sum-of-parts" assessment of HZN's assets and liabilities set out in HZN's audited statement of financial position as at 31 December 2017.

We have assessed the valuation based on HZN's net tangible assets (NTA) as at 31 December 2017, which reflects the fair market value of HZN's assets and liabilities.

Our assessment of the fair market value of HZN on a minority basis is set out below:

\$'000	Note
Reported NTA value as at 31 December 2017	91,958
Equity value - 100% controlling interest	91,958
USD/AUD Exchange Rate as at 31 December 2017	1.28
Equity value - 100% controlling interest (AUD)	117,706
Per security	
Securities on issue	1,301,981,265
Value per security (\$) - 100% controlling interest	0.09
Minority discount	16.7%
Value per security (\$) - minority interest	0.08

Source: 2018 half year report and BDOCF analysis

Based on the above, we have estimated the fair market value of a HZN security, using a NAV valuation methodology on a minority basis, to be \$0.08 per security.

7.3.4. Valuation Conclusion

Based on the assessed value of HZN shares on a minority basis using the NAV methodology, we have assessed the HZN securities to be transferred to HSE on execution of the Sale Agreement to be as follows:

\$	Low	High
Net asset value (NAV) valuation method	0.08	0.08
Quoted market prices (QMP) valuation method	0.11	0.14
Adopted value range of HZN per security (minority)	0.08	0.14
No. of securities to be transferred	6,250,000	6,250,000
Value of HZN securities to be transferred to HSE	470,674	937,500

7.4. Value of NGE

7.4.1. QMP Valuation

NGE is listed on the ASX. In order to assess the fair value, we have considered the movement in NGE's security price, VWAP and volumes traded during the past year.

After the analysis of the ASX quoted market price we have derived a fair market value range, which reflects a minority inherent price for an NGE security.

In assessing NGE's security price performance on the ASX we have had particular regard to the following:

- The level of trading activity of the NGE securities;
- The value of the trading activity and number of days of trading activity; and
- Recent key developments and market announcements.

7.4.2. VWAP per NGE security

We have also considered the ASX quoted market price for NGE which reflects a minority interest price per security. The table below summarises trades over the twelve-month period to 25 June 2018.

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of issued capital
1 day	0.67	0.68	0.67	0.01	0.0%
1 week	0.67	0.69	0.68	0.04	0.1%
1 month	0.66	0.71	0.69	0.42	1.1%
3 months	0.42	0.73	0.61	3.55	9.5%
6 months	0.42	0.73	0.54	6.44	17.2%
12 months	0.42	0.73	0.50	11.78	31.5%

We note the following with respect to the trading in NGE securities during the 12 months to 25 June 2018:

- NGE securities traded between a low of \$0.42 per security on 6 April 2018 and a high of \$0.73 per security in 18 May 2018.
- The traded volume of securities over the 12 months to 25 June 2018 was approximately 31.5% of the total weighted average number of securities on issue.

Our assessment of the fair market value of NGE, based on the QMP methodology is set out below:

\$	Low	High
NGE security - ASX Pricing (minority interest) per security (\$)	0.50	0.67

7.4.3. NTA Valuation

The fair market value of NGE's net assets is primarily based on a "sum-of-parts" assessment of NGE's assets and liabilities set out in NGE's audited statement of financial position as at 31 December 2017.

We have assessed the valuation based on NGE's net tangible assets (NTA) as at 31 December 2017, which reflects the fair market value of NGE's assets and liabilities.

Our assessment of the fair market value of NGE on a minority basis is set out below:

\$'000	Note
Reported NTA value as at 31 December 2017	23,625
Equity value - 100% controlling interest	23,625
Per security	
Securities on issue	37,444,448
Value per security (\$) - 100% controlling interest	0.63
Minority discount	16.7%
Value per security (\$) - minority interest	0.53

Source: 2018 half year report and BDOCF analysis

Based on the above, we have estimated the fair market value of a NGE security, using a NAV valuation methodology on a minority basis, to be \$0.53 per security.

7.4.4. Valuation Conclusion

Based on the assessed value of NGE shares on a minority basis using the NAV methodology, we have assessed the NGE securities to be transferred to NGE on execution of the Sale Agreement to be as follows:

A\$	Low	High
Net asset value (NAV) valuation method	0.53	0.53
Quoted market prices (QMP) valuation method	0.50	0.67
Adopted value range of NGE per security (minority)	0.53	0.67
No. of securities to be transferred	674,999	674,999
Value of NGE securities to be transferred to HSE	354,758	452,249

7.4.5. Value of APN

7.4.6. QMP Valuation

APN is listed on the NSX. In order to assess the fair value, we have considered the movement in APN's security price, VWAP and volumes traded during the past year.

After the analysis of the NSX quoted market price we have derived a fair market value range, which reflects a minority inherent price for an APN security.

In assessing APN's security price performance on the NSX we have had particular regard to the following:

- The level of trading activity of the APN securities;
- The value of the trading activity and number of days of trading activity; and
- Recent key developments and market announcements.

7.4.7. VWAP per APN security

We have also considered the ASX quoted market price for APN which reflects a minority interest price per security. The table below summarises trades over the twelve-month period to 25 June 2018.

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative volume m	% of Issued capital
1 day	0.00	0.00	0.00	0.00	0.0%
1 week	0.00	0.00	0.00	0.00	0.0%
1 month	0.00	1.11	1.11	0.03	0.1%
3 months	0.00	1.11	1.10	0.08	0.3%
6 months	0.00	1.15	1.15	2.29	8.7%
12 months	0.00	1.15	1.11	3.20	12.1%

We note the following with respect to the trading in APN securities during the 12 months to 25 June 2018:

- APN securities traded between a low of \$0.97 per security on 9 August 2017 and a high of \$1.15 per security in 15 March 2018.
- Recent prices of APN securities are zero due to no trading during these periods.
- The traded volume of securities over the 12 months to 25 June 2018 was approximately 12% of the total weighted average number of securities on issue.

Our assessment of the fair market value of APN, based on the QMP methodology is set out below:

\$	Low	High
APN security - NSX Pricing (minority interest) per security (\$)	1.11	1.15

7.4.8. NTA Valuation

The fair market value of APN's net assets is primarily based on a "sum-of-parts" assessment of APN's assets and liabilities set out in APN's audited statement of financial position as at 31 December 2017.

We have assessed the valuation based on APN's net tangible assets (NTA) as at 31 December 2017, which reflects the fair market value of APN's assets and liabilities.

Our assessment of the fair market value of APN on a minority basis is set out below:

\$'000	Note
Reported NTA value as at 31 December 2017	34,879
Equity value - 100% controlling interest	34,879
Per security	
Securities on issue	26,374,836
Value per security (\$) - 100% controlling interest	1.32
Minority discount	16.7%
Value per security (\$) - minority interest	1.10

Source: 2018 half year report and BDOCF analysis

Based on the above, we have estimated the fair market value of a APN security, using a NAV valuation methodology on a minority basis, to be \$1.10 per security.

7.4.9. Valuation Conclusion

Based on the assessed value of NGE shares on a minority basis using the NAV methodology, we have assessed the NGE securities to be transferred to NGE on execution of the Sale Agreement to be as follows:

A\$	Low	High
Net asset value (NAV) valuation method	1.10	1.10
Quoted market prices (QMP) valuation method	1.11	1.15
Adopted value range of APN per security (minority)	1.10	1.15
No. of securities to be transferred	218,026	218,026
Value of APN securities to be transferred to HSE	240,175	250,730

7.5. Value of Placement consideration

HSE will also undergo a capital raise via a Placement of a total of 7,994,118 shares at an issue price of \$0.17 to Mercantile Investment Company Limited (5,294,118 Shares), Ronald and Rhonda Langley (900,000 Shares), EGP Capital Pty Limited (900,000 Shares) and Noontide Investments Limited (900,000 Shares) (the Placement).

Entity	Placement Securities
Mercantile Investment Company Limited	5,294,118
Ronald and Rhonda Langley	900,000
EGP Capital Pty Limited	900,000
Noontide Investments Limited	900,000
Total	7,994,118
Issue price per security	\$0.17
Value of Placement Consideration	\$1,359,000

7.6. Minority discount

In relation to the interpretation of RG111.11, ASIC have advised that the appropriate assessment is to compare:

- The fair market value of a share pre-transaction on a control basis
- The fair market value of a shares post-transaction on a minority basis

Accordingly, in determining the value of one share after the Proposed Transactions, we have applied a minority discount in the 'post' scenario. We have applied a minority discount of 16.7% based on our selected control premium of 20%.

8. FAIRNESS ASSESSMENT

8.1. Fairness

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The value of the securities the subject of the offer is determined assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

In relation to the interpretation of RG111.11, ASIC have advised that the appropriate assessment is to compare:

- The fair market value of a share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a share post-transaction on a minority basis (being the offer price or consideration per RG111.11).

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

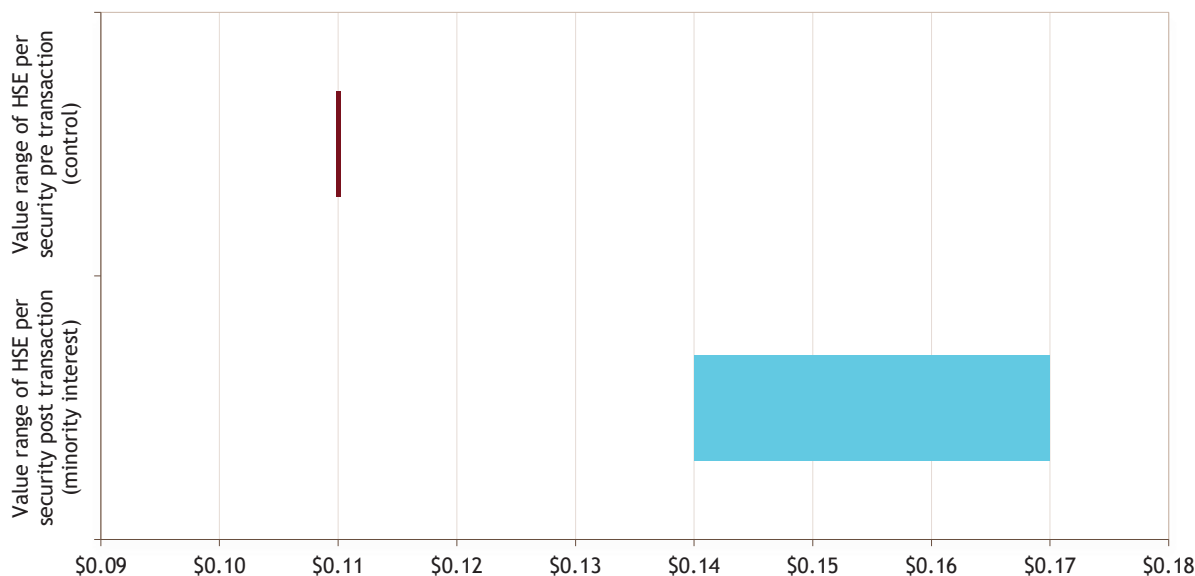
- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Proposed Transactions.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

We have formed our opinion in relation to fairness of the Proposed Transactions by comparing the:

- The fair market value of a HSE Share before completion of the Proposed Transactions on a controlling interest basis; and
- The fair market value of a HSE Share after completion of the Proposed Transactions on a minority interest basis.

A summary of our opinion is set out below:

Fair market value of HSE Share	Ref	Low	High
Value range of HSE per security pre transaction (control)		0.11	0.11
Value range of HSE per security post transaction (minority interest)		0.14	0.17
Conclusion		FAIR	



As set out above, our opinion is that the Proposed Transactions are fair to Non-Associated Shareholders.

9. REASONABLENESS ASSESSMENT

9.1. Reasonableness

In accordance with paragraph 12 of RG 111, an offer is ‘reasonable’ if it is ‘fair’. An offer could be considered ‘reasonable’ if there are valid reasons to approve it, notwithstanding that it may not be regarded as ‘fair’.

We have assessed the reasonableness of the Proposed Transaction by considering the factors set out below:

Advantages	
Increase in investment portfolio	The Sale Securities to be acquired will increase the net asset position of the Company and the size of the Company’s capital base. The Sale Securities will also provide additional diversity to the Company’s investment portfolio.
Acquisition of listed investments	The Sale Securities will provide opportunities for HSE shareholders to receive future value from increases in the underlying value of the acquired securities and provide diversity to the existing assets of the Company. The portfolio of Sale Securities to be acquired by HSE could otherwise take time to acquire on market.

Capital injection	<p>Capital injection - The Proposed Transactions provide HSE with a significant capital injection, increasing the scale of the Company, reducing liquidity risk and providing capital for further investment acquisitions.</p> <p>HSE holds minimal cash. There is a risk it may not have sufficient funds to continue operations without a capital injection.</p> <p>The Vendors have further advised that they are prepared to inject further capital into the Company to fund the Company's activities in circumstances where it considers that its further investment is in the interests of the Company and alternative sources of funding are not available on a cost-effective or commercial basis.</p>
Disadvantages	
Substantial holding	<p>Following completion of the Proposed Transactions, Mercantile Investment Company and the Associated Vendors collective voting power in HSE would be 71.67% providing significant influence to exert over the Company and the ability to block special resolutions or transactions that may be favourable to Non-associated Shareholders.</p>
Dilution	<p>The Proposed Transactions will result in a dilution of existing Shareholders shareholding and a decrease in voting power</p>

After considering the above factors, our opinion is that the Proposed Transactions are reasonable.

10. QUALIFICATIONS, DECLARATIONS AND CONSENTS

10.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr David McCourt, BBus, CA, is a director of BDOCF and a CA certified Business Valuations Specialist. Mr McCourt is a partner of BDO East Coast Partnership and has been responsible for the preparation of this IER.

Mr McCourt has over 18 years' experience in Chartered Accounting and regularly advises clients on corporate transactions and is experienced in the provision of valuations of shares and businesses for a variety of applications. Accordingly, Mr McCourt has the appropriate experience and professional qualifications to provide the advice offered.

Mr Daniel Coote CA, is a director of BDOCF and holds Bachelor of Commerce and Master of Applied Finance degrees from Macquarie University. Mr Coote is a partner of BDO East Coast Partnership and performed the concurring review of this IER.

10.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

We consider ourselves to be independent in terms of RG 112 Independence of experts, issued by ASIC.

BDOCF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for HSE in relation to the Proposed Transactions. Further, BDOCF has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with HSE that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to Proposed Transactions.

BDOCF will receive a fee of up to \$45,000, plus Goods and Services Tax for the preparation of this IER. BDOCF will not receive any fee contingent upon the outcome of Proposed Transactions and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

10.3. Disclaimer

This IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Directors and HSE



Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and HSE Shareholders without our written consent. We accept no responsibility to any person other than the Directors and HSE Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Board, executives and management of all the entities.

APPENDIX 1: GLOSSARY

Term	Definition
<i>ASIC</i>	Australian Securities & Investments Commission
<i>Act</i>	Corporations Act 2001
<i>APN</i>	APN Regional Property Fund
<i>BDOCF, we, our or us</i>	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)
<i>Board</i>	Board of directors of HSE
<i>Consideration Securities</i>	8,820,467 HSE securities to be issued as consideration to the Vendors
<i>DCF</i>	Discounted cash flow method
<i>Directors</i>	Directors of HSE
<i>FME</i>	Future maintainable earnings
<i>FOS</i>	Financial Ombudsman Service Limited
<i>FYxx</i>	Financial year ended/ending 30 June 20xx
<i>HSE, the Company</i>	Hamilton Securities Limited
<i>HSE Shareholders</i>	Existing shareholders of HSE
<i>HYxx</i>	Half financial year ended/ending 31 December 20xx
<i>HZN</i>	Horizon Oil Limited
<i>Licence</i>	Australian Financial Services Licence No: 247420
<i>NGE</i>	NGE Capital Limited
<i>NSX</i>	National Stock Exchange of Australia
<i>NAV</i>	Net asset value
<i>Non-Associated Shareholders</i>	Non-Associated Shareholders of HSE
<i>NPV</i>	Net present value
<i>Placement</i>	Equity issuance of 7,994,118 shares
<i>Proposed Transactions</i>	Equity issuances pursuant to the Sale Agreement and Placement
<i>QMP</i>	Quoted market price basis
<i>Report or IER</i>	Independent expert's report
<i>RG 76</i>	ASIC Regulatory Guide 76 Related party transactions
<i>RG 111</i>	ASIC Regulatory Guide 111 Content of expert reports
<i>RG 112</i>	ASIC Regulatory Guide 112 Independence of experts
<i>Sale Agreement</i>	HSE's acquisition of listed securities for consideration of HSE securities
<i>Sale Securities</i>	Listed securities in HZN, NGE and APN to be acquired by HSE pursuant to the Sale Agreement
<i>Transaction Document</i>	Notice of meeting and Explanatory memorandum
<i>Vendors</i>	Dawney & Co Pty Ltd, Trepass Pty Ltd ATF DKML Super Fund, Auslese Investments Pty Ltd and John Holt & Hilary Jane Holt

Source: BDOCF



APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- Transaction Document
- Company's financial reports for FY16, FY17 and HY18
- Company's share register at 29 May 2018
- ASX/NSX share data
- CapitalIQ and Mergermarket
- Financial reports for HZN, NGE and APN for FY16, FY17 and HY18
- Securities sale and purchase agreement (Sale Agreement)

APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of HSE Shares the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow (DCF) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (NPV).

DCF is appropriate where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Asset Value

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business Shares or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.



The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Quoted Market Prices

The application of the price that a company's Shares trade on the ASX is an appropriate basis for valuation where:

- the Shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's Shares; and
- the market for the company's Shares is active and liquid.