Sealegs Corporation Limited

Independent Adviser's Report

In Respect of the Potential Increase in Control of Voting Rights Held by Avenport Investment Corporation and its Associates Arising From the Proposed Issue of Options to Mark Broadley and the Proposed Share Buyback

November 2011

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1. Introduction

1.1 Background

Sealegs Corporation Limited (**Sealegs** or the **Company**) is listed on the main equities security market (**NZSX**) operated by NZX Limited (**NZX**) with a market capitalisation of $17 million as at 3 November 2011 and unaudited equity of $10 million as at 30 September 2011.

Sealegs manufactures amphibious marine craft. The Company produces recreational boats, flood rescue and coastguard amphibious boats and tourism, military and commercial amphibious marine craft.

The Company sold its first amphibious boat in April 2004 and shipped its 100th boat in January 2007. Over 500 Sealegs marine craft have now been delivered to 25 countries.

1.2 Issue of Options to Mark Broadley and David Glen

Sealegs proposes to issue 1,500,000 options to Mark Broadley (the **Broadley Options**) and 3,000,000 options to David Glen (the **Glen Options**), subject to shareholder approval.

Mr Broadley was appointed a director of the Company on 16 February 2011. He was appointed interim chief executive officer of Sealegs on 22 March 2011 and held that position up to 19 October 2011, when Mr Glen was appointed as the Company's chief executive officer.

Mr Broadley holds 3,196,596 shares in the Company, representing 2.57% of the Company's ordinary shares on issue.

Avenport Investment Corporation (**Avenport**) currently holds 49,500,000 shares in the Company, representing 39.79% of the Company's ordinary shares on issue.

While it is not clear that Mr Broadley is an associate of Avenport, for the purposes of the Broadley Options and the share buyback (discussed in section 1.3), Mr Broadley and Avenport have agreed to be treated as associates for the purposes of the Takeovers Code (the **Code**).

We refer to Avenport and Mr Broadley collectively as the **Avenport Associates**. The Avenport Associates collectively hold 52,696,596 shares in the Company, representing 42.36% of the Company's ordinary shares on issue.

The terms of the Broadley Options and the Glen Options have largely been based on the terms of the 9,650,000 options granted to directors and senior management on 27 July 2009 (the **2009 Options**). The 2009 Options were approved by shareholders at the Company's annual meeting on 17 July 2009. The key difference in the terms is that the Broadley Options and the Glen Options have an exercise price of $0.14, compared with $0.10 for the 2009 Options.

The key terms of the Broadley Options are set out in section 2.4. In summary:

- each option confers the right to acquire one ordinary share in the Company
- the options will be split into 2 series – A and B
- a series of options can only be exercised if the volume weighted average share price (**VWAP**) for the 30 days immediately prior to the trigger date for that series is at or above the trigger price

Options Trigger Dates and Trigger Prices				
Series	**% of Total Options Issued**	**Trigger Date**	**Trigger Price $**	**Exercise Period**
A	50%	30 June 2012	0.17	30 June 2012 – 30 June 2014
B	50%	30 June 2013	0.20	30 June 2013 – 30 June 2014

- the exercise price for the options will be $0.14 per share
- the options will lapse if they are not exercised by 30 June 2014 or if Mr Broadley ceases to be an employee of Sealegs before then.

1.3 Share Buyback

Sealegs announced on 20 October 2011 that it proposes to buy back up to 3,850,000 shares in the Company by way of on-market purchases in accordance with section 65 of the Companies Act 1993 (the **Share Buyback**).

The Avenport Associates do not intend to participate in the Share Buyback. Accordingly, any shares that the Company buys back from other shareholders (the **Non-associated Shareholders**) and which are then cancelled will result in an increase in the Avenport Associates' level of voting rights in the Company.

Depending on the number of shares bought back, the Share Buyback will result in the Avenport Associates' holding voting rights in the Company of between:

- 42.36% - assuming no shares are bought back
- 43.72% - assuming the maximum 3,850,000 shares are bought back and cancelled.

1.4 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

Broadley Options

The allotment of shares on the exercise of the Broadley Options will result in up to 1,500,000 shares additional shares being held by Mr Broadley. Therefore the Avenport Associates may collectively hold 43.05% of the shares in Sealegs (prior to the Share Buyback and assuming no other shares in the Company are issued).

One of the exceptions to Rule 6 of the Code, set out in Rule 7(d), enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

Accordingly, the Non-associated Shareholders will vote on an ordinary resolution in respect of the Broadley Options (resolution 1) at the Company's special meeting on 28 November 2011.

Avenport and Mr Broadley (and their associates) are not permitted to vote on the resolution. Mr Glen and his associates are also not permitted to vote on the resolution.

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

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

We note that an Independent Adviser's Report is not required in respect of the Glen Options.

Share Buyback

When a company buys back its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Class Exemptions**) sets out a general exemption for share buybacks.

Clause 4 of the Class Exemptions provides an exemption for a shareholder controlling in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of non-associated shareholders.

Clause 5 of the Class Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

The Share Buyback could result in the Avenport Associates increasing their collective shareholding in the Company from 42.36% to 43.72% (prior to the exercise of any options on issue). The Avenport Associates have advised the Company that they do not intend to participate in the Share Buyback.

Accordingly, the Non-associated Shareholders will vote on an ordinary resolution at the Company's special meeting in respect of the Share Buyback so that the Avenport Associates do not have to sell down shares (resolution 2).

Avenport and Mr Broadley (and their associates) are not permitted to vote on the resolution.

Clause 4 of the Class Exemptions requires that the notice of meeting containing the resolution in respect of the Share Buyback must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

1.5 Purpose of the Report

The board of directors of Sealegs (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Avenport Associates increasing their control of voting rights as a result of the exercise of the Broadley Options and the Share Buyback.

Simmons Corporate Finance was approved by the Takeovers Panel on 14 October 2011 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on voting on the 2 resolutions.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Avenport Associates increasing their control of voting rights as a result of the exercise of the Broadley Options and the Share Buyback in relation to each shareholder. Our advice and opinions are necessarily general in nature.

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

2. Evaluation of the Merits of the Allotment of Shares on the Exercise of the Broadley Options

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares on the exercise of the Broadley Options.

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

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

- the Takeovers Panel guidance note on the role of independent advisers dated August 2007
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotment of shares on the exercise of the Broadley Options should focus on:

- the rationale for the Broadley Options
- the terms of the Broadley Options
- the value of the Broadley Options
- the likely impact on the control of Sealegs if the Broadley Options are granted
- the likely impact on Sealegs' share price of the Broadley Options
- the benefits and disadvantages to the Non-associated Shareholders of the Broadley Options
- the implications if the resolution in respect of the Broadley Options is not approved.

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

2.2 Summary of the Evaluation of the Merits of the Allotment of Shares on the Exercise of the Broadley Options

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

Our evaluation of the merits is set out in detail in sections 2.3 to 2.10. In summary, the key factors leading to our opinion are:

- the rationale for the Broadley Options is sound
- the escalating trigger prices are above the current share price. Mr Broadley will only be able to exercise the Broadley Options if the Company's share price is at or above the trigger price at the respective trigger dates
- the exercise price of $0.14 is in line with the Company's current share price
- the benefits to be derived by Mr Broadley will potentially be spread over more than 2 years up to June 2014
- the overall remuneration level for Mr Broadley is reasonable
- the allotment of shares on the exercise of the Broadley Options will not have any significant impact on the control of Sealegs
- the Broadley Options are unlikely to have any material impact on Sealegs' share price or the liquidity of its shares
- the dilutionary impact of the Broadley Options on Non-associated Shareholders is minor at approximately 1%.

2.3 Rationale for the Broadley Options

Sealegs has a history of granting options to its executive directors and senior executives:

- it granted 12,000,000 options to directors and senior management on 13 August 2007 (the **2007 Options**)
- it granted 9,650,000 2009 Options to directors and senior management on 27 July 2009 following the cancellation of the 2007 Options.

Sealegs' rationale for granting the options is to reward and incentivise its key senior employees and to raise additional capital if the options are exercised. The Board has developed a remuneration structure which it believes provides a strong performance incentive to key senior employees, rewards performance without drawing upon the cash resources of the Company and ensures that rewards are derived by the key senior employees only after shareholders have received appropriate returns on their investment.

The Board considers it imperative that Mr Broadley and Mr Glen are appropriately incentivised and rewarded as the Company develops its products, markets and production and seeks to substantially increase its revenue and earnings.

The terms of the Broadley Options and the Glen Options are largely based on the 2009 Options which were approved by shareholders on 17 July 2009. The key difference is a higher exercise price of $0.14 (compared with $0.10 for the 2009 Options). The option periods are the same as for the 2009 Options, thereby allowing the Company to put in place a new executive option scheme on consistent terms when all the options' exercise periods end on 30 June 2014.

In general terms, companies provide equity-based long-term executive incentive remuneration to tie executives' remuneration to the annual and long term financial performance of the company and to align the interests of the executives with shareholders. Key benefits to the company include:

- equity-based long-term executive incentive remuneration helps to attract and retain top executives
- it enables executives to build equity ownership in the company
- executives' interests are more closely aligned with shareholders' interests.

There has been growing criticism in New Zealand and abroad in respect of the granting of options to executives. The criticisms centre around:

- the lack of performance hurdles and / or inadequate explanation of performance hurdles
- options being issued to non-executive directors
- the length of term for the exercise of the options being too short and hence not aligning with shareholder interests
- already generous remuneration for executives.

In our view, the rationale for the Broadley Options is sound:

- it continues the Company's policy of granting options to its key executives – in this instance Mr Broadley (as well as Mr Glen through the grant of the Glen Options)
- the options will be granted on the same terms as the 2009 Options, but the exercise price will be increased from $0.10 to $0.14 to reflect the increase in the Company's share price between July 2009 and October 2011
- it provides a moderately long term incentive - potentially spanning over more than 2 years to June 2014, thus aiding in the retention of Mr Broadley
- it closely aligns the interests of Mr Broadley with those of the Company's shareholders through the use of escalating trigger price performance hurdles.

While we consider the rationale for the Broadley Options to be sound, we note that Mr Broadley already has a strong alignment of interests with the Non-associated Shareholders as he currently holds 2.57% of the Company's shares. Therefore it is questionable as to whether the Broadley Options provide any significant incremental incentive to Mr Broadley to enhance the value of the Company.

2.4 Terms of the Broadley Options

The terms of the Broadley Options have been based on the terms of the 2009 Options except for the exercise price which has been increased from $0.10 to $0.14 in line with movements in the Company's share price.

The key terms of the Broadley Options are:

- each option confers the right to acquire one ordinary share in the Company. The shares issued on exercise of the options will rank equally with all ordinary shares then on issue
- if approved by shareholders, the options will be granted on the date of that approval (unless Sealegs and Mr Broadley agree to a later date)
- consideration of $1.00 is to be paid by Mr Broadley for the 1,500,000 options he will be granted
- the options will be split into 2 series – A and B
- a series of options can only be exercised if the VWAP for the 30 days immediately prior to the trigger date for that series is at or above the trigger price
- each series of options must be exercised between their respective trigger date and 30 June 2014
- the trigger price and trigger dates for each series of options are set out below

Broadley Options Trigger Dates and Trigger Prices				
Series	**% of Total Options Issued**	**Trigger Date**	**Trigger Price $**	**Exercise Period**
A	50%	30 June 2012	0.17	30 June 2012 – 30 June 2014
B	50%	30 June 2013	0.20	30 June 2013 – 30 June 2014

- the exercise price for the options will be $0.14 per share
- the options will not be transferable. However, if a full takeover offer is made for Sealegs and the bidder becomes a dominant owner as defined by the Code, Mr Broadley will be entitled to accept the takeover offer in respect of the options
- the options will lapse if they are not exercised by 30 June 2014 or if Mr Broadley ceases to be an employee of Sealegs before then.

Positive Features

Escalating Trigger Prices

The escalating trigger price performance hurdle ensures that Mr Broadley will only be entitled to exercise a series of options if Sealegs' shareholders have received a positive return on their investment.

The trigger prices were set by the Board based on a starting share price of $0.14 (based on the Company's share price at 20 October 2011) which escalates by approximately 20% each year.

Escalation of Trigger Price			
		Escalation	
	Trigger Price	Annual	CAGR
Starting share price	$0.14		
Series A	$0.17	21.4%	21.4%
Series B	$0.20	17.7%	19.5%

CAGR: Compound annual growth rate

The 20% escalation factor is in line with our assessment of Sealegs' cost of equity. Escalating the trigger prices in line with the Company's cost of equity means that (in theory) Non-associated Shareholders will earn appropriate returns on their investment before the options can be exercised.

The trigger prices happen to be the same as the trigger prices for the Series C and Series D 2009 Options which have the same exercise periods as the Broadley Options.

$0.14 Exercise Price

The terms of the Broadley Options are based on the 2009 Options. However, the exercise price has been increased from $0.10 to $0.14 to ensure that the Broadley Options are issued *at the money*.

An analysis of Sealegs' share price since 5 January 2009 is set out in section 2.8. This shows that the Company's shares have traded between $0.08 and $0.27 over that period at a VWAP of $0.16.

The VWAP over the one month to 20 October 2011 was $0.14 and is the basis for setting the exercise price for the Broadley Options.

Conservation of Cash

Providing compensation via the grant of options helps to remunerate executives while conserving cash resources as the Company continues to invest in its expansion.

Negative Features

Exercise Period

The Broadley Options are split into 2 tranches (Series A and Series B). Assuming the trigger prices are met, Series A options can be exercised between 30 June 2012 and 30 June 2014 while Series B options can be exercised between 30 June 2013 and 30 June 2014.

Therefore the benefits to be derived by Mr Broadley will potentially be spread out over more than 2 years up to 30 June 2014. This provides a moderately long term incentive to Mr Broadley.

We would expect an executive option scheme to extend over a much longer period of at least 3 years and potentially up to 7 years. However, we understand that the relatively short duration of the Broadley Options is to align the period with the 2009 Options (which spanned over a 5 year period). At the completion of the period covered by the 2009 Options, the Broadley Options and the Glen Options (ie 30 June 2014), Sealegs will be able to implement an option scheme that is consistent for all its executives.

Accordingly, while the exercise period of the Broadley Options is not of a long duration, we recognise that this is due to the Board's desire to implement a new executive option scheme on consistent terms for all of the Company's executives.

2.5 Value of the Broadley Options

Our assessment of the value of the Broadley Options is set out in section 4.

We assess the value of the Broadley Options to be in the vicinity of $65,000 as at 28 November 2011 (the expected grant date), which averages to approximately $33,000 per annum over the 2 year period that the options cover.

Value of Broadley Options			
Series	**Value per Option $**	**No. of Options per Executive**	**Value of Series $**
A	0.050	750,000	37,500
B	0.037	750,000	27,750
		1,500,000	65,250

It is important to bear in mind that while we have assessed the value of the Broadley Options be in the vicinity of $65,000, the actual benefit received by Mr Broadley may be anywhere from nil (if none of the trigger prices are met) to considerably more than $65,000 (depending on the actual prices of Sealegs' shares).

Sealegs will be required to recognise the fair value of the Broadley Options as an expense in its statement of comprehensive income in accordance with *NZ IFRS-2 Share-based Payment*.

2.6 Mr Broadley's Remuneration

Although the focus of our evaluation is primarily on the allotment of shares on the exercise of the Broadley Options, consideration needs to be given to the overall level of remuneration for Mr Broadley.

Mr Broadley was the Company's interim chief executive officer from 22 March 2011 to 19 October 2011, a period of approximately 7 months. We are advised by the Board that his salary during that time was the equivalent of $100,000 per annum. This level of remuneration was significantly below the remuneration paid to David McKee Wright in his role as chief executive officer prior to Mr Broadley's appointment. Mr McKee Wright's total remuneration was $225,000 in the 2010 financial year and $367,000 in the 2011 financial year.

We are advised that one of the purposes of the Broadley Options is to recognise and compensate Mr Broadley for the below market remuneration he was paid during his tenure as interim chief executive officer. The Board considers the grant of the Broadley Options to be an effective way of remunerating Mr Broadley for his services while also preserving the Company's cash resources.

Following Mr Glen's appointment as chief executive officer on 19 October 2011, Mr Broadley's role will be as an executive director with directors' fees of $75,000 per annum.

Taking into account the Broadley Options, we consider the overall levels of remuneration for Mr Broadley as interim chief executive officer and executive director are reasonable, if not below market levels.

2.7 Impact on Control

Capital Structure and Shareholders

Ordinary Shares

Sealegs currently has 124,390,190 ordinary fully paid shares on issue held by 2,462 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 20 October 2011 are set out below.

Sealegs' 10 Largest Shareholders

Shareholder	No. of Shares Held	%
Avenport	49,500,000	39.79%
McKee Wright Family Trust	6,320,000	5.08%
Bryham Family Trust	5,600,000	4.50%
Raphael Chaikin	5,110,000	4.11%
Brian Taylor	4,607,500	3.70%
HSBC Nominees (New Zealand) Limited	3,303,934	2.66%
Izard Investments Limited	3,153,628	2.54%
Accident Compensation Corporation	3,087,086	2.48%
Hubbard Churcher Trust Management Limited	2,035,735	1.64%
Marco Kleyn	1,763,924	1.42%
Subtotal	84,481,807	67.92%
Others (2,452 shareholders)	39,908,383	32.08%
Total	124,390,190	100.00%

Source: Computershare

HSBC Nominees (New Zealand) Limited holds 3,196,596 shares (2.57%) as nominee on behalf of Mr Broadley.

Options

Sealegs currently has 9,350,000 2009 Options on issue.

The Company's shareholders approved the 2009 Options on 17 July 2009, permitting the issue of up to 10,650,000 options to certain executive directors and senior management. This followed the cancellation on 31 March 2009 of the 12,000,000 2007 Options that were granted in August 2007.

A total of 9,650,000 2009 Options were granted on 27 July 2009:

- 4,000,000 options were issued to Mr McKee Wright
- 4,000,000 options were issued to Mr Bryham
- 1,650,000 options were issued to senior management.

The 2009 Options are in 4 tranches with staggered exercise periods and escalating trigger prices. Each option has a $0.10 exercise price.

2009 Options				
Series	**No. of Options**	**Exercise Period**	**Trigger Price**	**Exercise Price**
A	2,412,500	30 June 2010 – 29 June 2014	$0.12	$0.10
B	2,412,500	30 June 2011 – 29 June 2014	$0.14	$0.10
C	2,412,500	30 June 2012 – 29 June 2014	$0.17	$0.10
D	2,412,500	30 June 2013 – 29 June 2014	$0.20	$0.10
	9,650,000			

Source: Sealegs

200,000 Series A and 100,000 Series B 2009 Options have been exercised to date.

Shareholder Voting

The Avenport Associates collectively hold 42.36% of the shares in Sealegs. The allotment of shares on the exercise of the Broadley Options will result in the Avenport Associates collectively holding 43.05% of the shares in Sealegs, assuming no other shares are issued during this time and ignoring the impact of the Share Buyback which is discussed in section 3.6.

The impact of the increase in the Avenport Associates' collective shareholding from 42.36% to 43.05% will be negligible on shareholder voting.

The Avenport Associates currently hold a strategic shareholding with the ability to block special resolutions (which require the approval of 75% of the votes cast by shareholders) and influence the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

Under the Companies Act 1993, a special resolution is required to:

- adopt, alter or revoke a company's constitution
- approve a major transaction
- approve an amalgamation of a company
- place a company in liquidation.

While a 42.36% interest is technically not sufficient to control the outcome of an ordinary resolution, in reality, it probably is in a listed company with more than 2,000 shareholders (as Sealegs currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 42.36% interest increases.

The increase in shareholding from 42.36% to 43.05% will not change the Avenport Associates' ability to block a special resolution or control the outcome of an ordinary resolution to any significant degree.

The ability for any shareholder to influence the outcome of voting on the Company's special resolutions or ordinary resolutions may be reduced by external factors such as the Company's constitution, the Companies Act and the NZSX Listing Rules.

Board of Directors

The directors of Sealegs are:

- Eric Series, executive chairman, associated with Avenport
- Mark Broadley, executive director, treated as associated with Avenport for the purposes of the Code
- Mike Beagley, independent director (appointed 20 October 2011)
- Chris Weir, independent director (appointed 20 October 2011).

Chris Dickson, James Hill and David McKee Wright resigned from the Board in 2011 and Maurice Bryham retired from the Board in 2011.

We are advised by the Board that the Avenport Associates will not increase their representation on the Board as a result of the grant of the Broadley Options or upon their exercise. Accordingly, the approval of the Broadley Options will not lead to greater control of the Board by the Avenport Associates.

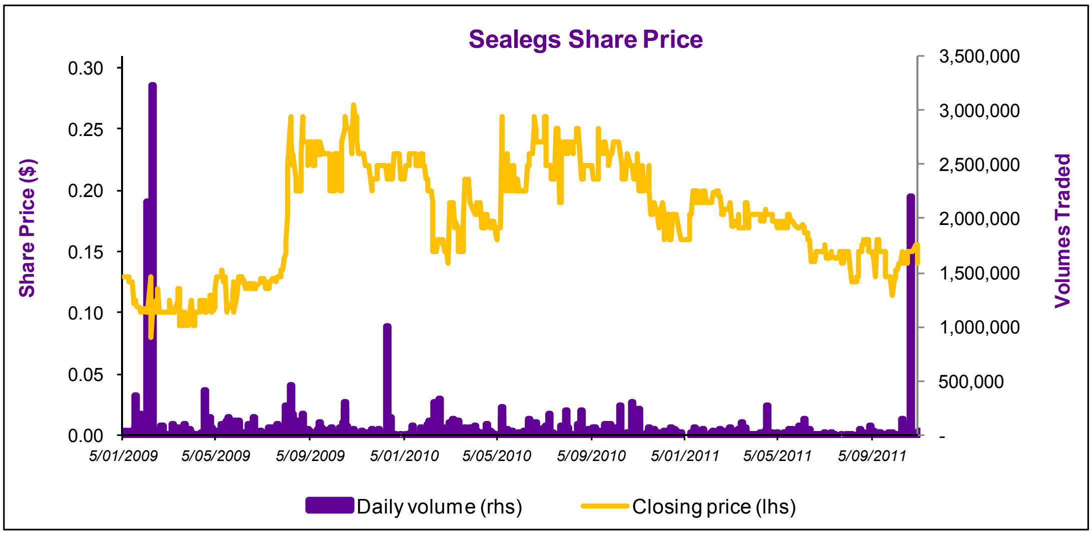
Operations

We are advised by the Board that the allotment of shares upon the exercise of the Broadley Options will not have any impact on the level of influence of the Avenport Associates over the Company's operations.

2.8 Impact on Share Price and Liquidity

Share Price

Set out below is a summary of Sealegs' daily closing share price and daily volumes of shares traded from 5 January 2009 to 3 November 2011.



During the period, Sealegs' shares have traded between $0.08 (on 10 February 2009) and $0.27 (on 30 October 2009) at a VWAP of $0.16.

In our view, the existence of the Broadley Options is unlikely to have an effect (either positive or negative) on the Company's share price. This is because the existence of the trigger price performance hurdles means that the company's share price must increase each year by approximately 20% before the options can be exercised.

As the exercise price of $0.14 is lower than the trigger prices, there will be dilutionary impacts each time options are exercised. However, each series of options will represent less than 1% of the total shares on issue and therefore any dilutionary impact will be minimal.

Liquidity

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

Sealegs Share Trading					
Period	**Low [1] $**	**High [1] $**	**VWAP [1] $**	**Volume Traded [1] (000)**	**Liquidity [1]**
1 month	0.13	0.16	0.15	2,553	2.1%
3 months	0.12	0.16	0.15	3,021	2.4%
6 months	0.12	0.18	0.15	3,943	3.2%
12 months	0.12	0.23	0.17	6,659	5.4%

1 To 3 November 2011

The analysis is somewhat skewed due to a total of 2,201,718 shares (1.8%) being traded on 25 October 2011.

The size of the pool of shares held by the Non-associated Shareholders will not change as a result of the allotment of shares upon the exercise of the Broadley Options.

In our view, the allotment of shares upon the exercise of the Broadley Options in itself is unlikely to have a positive or negative effect on the liquidity of Sealegs' shares.

2.9 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefits to the Non-associated Shareholders of the Broadley Options are that it further aligns the interests of Mr Broadley and the Non-associated Shareholders, remuneration payable to Mr Broadley does not draw on the Company's cash reserves and $210,000 of capital will be raised if the options are exercised.

Main Disadvantages

The main disadvantage is that the exercise of the Broadley Options will increase the Avenport Associates' collective shareholding in the Company from 42.36% to 43.05%, thereby marginally increasing the Avenport Associates' ability to control the outcome of shareholder voting. However, we do not consider this level of increase to be of any significance.

Furthermore, the allotment of 1,500,000 shares on the exercise of all of the Broadley Options will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 1%. We do not consider this level of dilution to be of any significance.

2.10 Implications of the Resolution not Being Approved

In the event that resolution 1 in respect of the Broadley Options and the Glen Options is not approved, the Board will need to re-enter into remuneration negotiations with Mr Broadley and / or Mr Glen. This is unlikely to be a desirable situation for the Board as it gives rise to a number of risks:

- increased costs to the Company arising from the potential distraction and lack of focus on Company operations as further negotiations are entered into
- additional costs to the Company arising from the need for shareholder approval of an alternative remuneration package should this involve the issue of shares or the grant of options. The additional costs include the potential costs of a further shareholders' meeting
- alternative remuneration packages may involve the payment of higher levels of cash remuneration rather than the issue of shares or the grant of options
- in the extreme case, the possibility of Mr Broadley and / or Mr Glen resigning from their positions or reducing their commitments to the Company if a suitable alternative remuneration package cannot be negotiated or approved by the Non-associated Shareholders.

2.11 Voting on the Resolution

Voting on resolution 1 in respect of the Broadley Options is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Merits of the Share Buyback

3.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Avenport Associates retaining any increase in their control of voting rights as a result of the Share Buyback.

We are of the view that an assessment of the merits of the Avenport Associates retaining any increase in their control of voting rights as a result of the Share Buyback should focus on:

- the rationale for the Share Buyback
- the terms and conditions of the Share Buyback
- the impact of the Share Buyback on Sealegs' financial position
- the impact of the Share Buyback on the control of the Company
- the impact of the Share Buyback on Sealegs' share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Buyback
- the implications if the resolution in respect of the Share Buyback is not approved.

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

3.2 Summary of the Evaluation of the Merits of the Share Buyback

In our opinion, after having regard to all relevant factors, the positive aspects of the Share Buyback outweigh the negative aspects of the Avenport Associates retaining any increase in their control of voting rights as a result of the Share Buyback from the perspective of the Non-associated Shareholders.

Our evaluation of the merits is set out in detail in sections 3.3 to 3.9. In summary, the key factors leading to our opinion are:

- the rationale for the Share Buyback is sound
- any shares bought back will be bought on-market
- the Company's financial position will not change materially. Total equity and cash and bank deposits will reduce by approximately $0.6 million if the maximum 3,850,000 shares are bought back
- the Share Buyback will not significantly increase the Avenport Associates' ability to influence the outcome of shareholder voting
- the Share Buyback is unlikely to have any material impact on Sealegs' share price
- the Share Buyback will likely improve the liquidity of the Company's shares over the period of the Share Buyback but may reduce the liquidity of the Company's shares after the Share Buyback is completed

- the Share Buyback is unlikely to reduce the attraction of Sealegs as a takeover target
- the implications of the Avenport Associates not being able to retain any increase in their control of voting rights as a result of the Share Buyback are that they will be required to sell down their shareholdings to return their percentage holding to pre-buyback levels within 6 months of the Share Buyback. This may place downward pressure on the Company's share price or may lead the Company to reconsider the extent to which it undertakes buybacks.

3.3 Rationale for the Share Buyback

Board's Rationale

We are advised by the Board that the Share Buyback is to be utilised as a capital management tool. Whether shares are bought back at all will depend on market conditions and other factors prevailing at the relevant time. The Board will regularly reassess the situation and seek to purchase shares at prices that in its view represents the best value for shareholders.

The Board considers the Share Buyback to be in the best interests of the Company as:

- it will increase the liquidity of the Company's shares
- it is an efficient use of capital if the Board believes the market is undervaluing the Company
- the Company's willingness to buy back shares when it considers that they are significantly undervalued by the market is likely to be viewed positively by shareholders and sharemarket analysts
- it is a tax efficient method for returning capital to shareholders.

Finance Theory

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- supporting the share price
- an efficient use of capital
- creating a more efficient capital structure.

In reality however the impacts can be difficult to quantify.

Supporting the Share Price

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities on which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

Efficient use of Capital

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the companies' capital.

Capital Structure

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

Having considered all of the above, we are of the view that the rationale for the Share Buyback is sound.

3.4 Terms of the Share Buyback

The key terms of the Share Buyback are:

- the Company intends to acquire up to 3,850,000 shares, representing up to 3.10% of the Company's shares on issue
- the Company is not committed to buying back any shares under the Share Buyback
- shares will be bought on-market
- no maximum price will be specified for shares to be bought on-market but the Company will always disclose the number of shares and the price at which it bought them before 9:30am on the business day following the purchase being made
- the Company may cancel any shares acquired under the Share Buyback. If the shares are not cancelled, they will not carry voting rights while they are held by the Company.

We consider the terms of the Share Buyback to be in line with normal commercial terms for a transaction of this nature.

3.5 Impact on Financial Position

Sealegs' total equity as at 30 September 2011 was approximately $9.9 million, which equated to $0.080 per share as at that date. The Company held approximately $3.7 million of cash and bank deposits at that date and interest bearing debt in the form of finance lease liabilities of approximately $0.2 million.

Assuming a market share price of $0.15, the buyback of the maximum 3,850,000 shares will require a cash outlay of approximately $0.6 million. For illustrative purposes using the Company's 30 September 2011 financial position, assuming the 3,850,000 shares are bought back and cancelled, this will result in total equity reducing to approximately $9.4 million, equity per share reducing marginally to $0.078 and cash and bank deposits reducing to approximately $3.2 million.

3.6 Impact on Control

Shareholder Voting

The Avenport Associates collectively hold 42.36% of the Company's shares.

Any shareholder that does not participate in the Share Buyback on a pro rata basis will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

The Avenport Associates have informed the Company that they will not participate in the Share Buyback. Accordingly, the Share Buyback will result in the Avenport Associates holding between 42.36% and 43.72% of the Company's shares, depending on the number of shares bought back and assuming no other shares are issued during this time.

Assuming the Broadley Options are granted and exercised, the Share Buyback is completed and no other shares are issued during this time, the Avenport Associates will hold between 42.36% and 44.41% of the Company's shares, depending on the number of share bought back.

As discussed in section 2.7, the Avenport Associates currently have the ability to block special resolutions and most likely control the outcome of ordinary resolutions. The increase in the Avenport Associates' collective shareholding from 42.36% to a maximum of 44.41% is unlikely to materially change the Avenport Associates' ability to exert shareholder control over Sealegs.

We note that if all the Company's options were exercised (ie the 2009 Options, the Broadley Options and the Glen Options) and the Share Buyback was completed and there were no other changes to the Company's capital structure, the maximum shareholding level for the Avenport Associates would reduce from 44.41% to 40.33%. This level is lower than the Avenport Associates' current shareholding level of 42.36%.

Board Control

As stated in section 2.7, the Company has 4 directors. Mr Series and Mr Broadley are treated as associates of Avenport.

We are advised by the Board that the Share Buyback will not have any impact on the composition of the Board.

Operations

We are advised by the Board that the Share Buyback will not have any impact on the level of influence of the Avenport Associates over the Company's operations.

3.7 Impact on Share Price and Liquidity

Share Price

A summary of Sealegs' daily closing share price and daily volumes of shares traded from 5 January 2009 to 3 November 2011 is set out in section 2.8.

On the basis that any buybacks are on-market and therefore at prevailing market prices, we are of the view that the Share Buyback will have negligible impact on the Company's share price.

Liquidity

Liquidity in Sealegs' shares is relatively low. This is driven in part by the Avenport Associates holding 42.36% of the Company's shares and also due to the relative low level of interest by financial institutions in holding the Company's shares.

If Sealegs undertakes the Share Buyback to the maximum extent, it will repurchase 3,850,000 shares, representing 3.10% of the total shares currently on issue. As set out in section 2.8, 5.4% of the Company's shares traded in the past year. This included the trade of 1.8% of the Company's shares on a single day (25 October 2011). Ignoring this abnormal level of trading, the total number of shares traded in the past year was 3.6%. Therefore if the Share Buyback is undertaken to the maximum extent, it is likely to represent a significant proportion of daily trading in Sealegs shares and thus will likely improve the liquidity of the Company's shares over the period of the Share Buyback.

However, the Share Buyback will reduce the free float (ie those shares held by the Non-associated Shareholders and available to be freely traded) by up to 3,850,000 shares, or approximately 5.4% of the free float. Accordingly whilst the Share Buyback will provide some short term liquidity in the form of buy-side demand, in the longer term, the liquidity of Sealegs' shares may reduce.

3.8 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefits to the Non-associated Shareholders of the Share Buyback are that it provides the Board with a capital management tool and that it will likely increase the liquidity of the Company's shares over the period of the Share Buyback.

Main Disadvantage

The main disadvantage is that the Share Buyback may increase the Avenport Associates' collective shareholding in the Company from 42.36% to 43.72% (assuming no other shares are issued) or 44.41% (assuming the Broadley Options are exercised and there are no other shares are issued), thereby marginally increasing Avenport's ability to control the outcome of shareholder voting. However, we do not consider this level of increase to be of any significance.

Unlikely to Reduce the Likelihood of a Takeover Offer from the Avenport Associates

As long as the Avenport Associates hold more than 20% and not more than 50% of the voting rights in the Company, they cannot increase the level of their shareholding unless they comply with the provisions of the Code. They will only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders.

The Avenport Associates are seeking to increase their collective shareholding from 42.36% to 43.72% under the Share Buyback by way of shareholder approval. Assuming the Share Buyback is approved, the Avenport Associates will not be able to increase their shareholding beyond 43.72% unless they comply with the provisions of the Code.

We are not aware of any intention on the Avenport Associates' part to make a takeover offer. However, if they did have such intent, an increase in their shareholding from 42.36% to 43.72% is unlikely to reduce the likelihood of a takeover offer for the Company as the increase in the shareholding level is not significant.

Likelihood of Other Takeover Offers Does not Change

Any bidder looking to fully take over the Company would need to ensure that the Avenport Associates would accept its offer, irrespective of whether they held 42.36% or 43.72% of the shares in the Company.

In the event that a bidder made a partial takeover offer for (say) 50.1% of the Company, the increase in the Avenport Associates' voting rights to 43.72% would technically still be insufficient to prevent a successful partial takeover at that level of control.

However, the bidder would most likely need to ensure that the Avenport Associates would accept its offer (or at least accept the offer in respect of some of their shares), irrespective of whether they held 42.36% or 43.72% of the shares in the Company, so as to ensure the success of the offer.

In our view, the increase in the Avenport Associates' shareholdings from 42.36% to 43.72% is unlikely to reduce the attraction of Sealegs as a takeover target to other parties.

3.9 Implications of the Resolution not Being Approved

In the event that resolution 2 is not approved, the Company would still be able to proceed with the Share Buyback but the Avenport Associates would be required to sell down their shareholdings to return their percentage holding to pre-buyback levels within 6 months of the Share Buyback.

Such a scenario is potentially disadvantageous to Non-associated Shareholders as:

- it may lead the Board to reconsider the degree to which it undertakes buybacks and hence reduce the ability for Non-associated Shareholders to sell their shares
- the forced sale of shares by the Avenport Associates may place downward pressure on the Company's share price.

3.10 Voting on the Resolution

Voting on resolution 2 in respect of the Avenport Associates retaining any increase in their control of voting rights as a result of the Share Buyback is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Valuation of the Broadley Options

4.1 Methodology and Valuation Approach

Each series of the Broadley Options can only be exercised if the 30 day VWAP immediately prior to the respective trigger date is at or above the respective trigger price.

The trigger price is commonly referred to as a barrier and options with these features are referred to as *Up and In Barrier Options*.

Assuming the barrier conditions are met, the Broadley Options can be exercised at any time from the trigger date up to 30 June 2014. Therefore the options are *American Options* (as opposed to *European Options* which can only be exercised on one particular day).

The Binomial option-valuation model and the Black-Scholes option-valuation formula are commonly used in commercial practice to value options. However, the complexities associated with American Up and In Barrier Options requires the use of a three-dimensional lattice model (a **Trinomial Lattice**) to assess the value of the Broadley Options.

The key variables in determining the value of an American Up and In Barrier Option under the Trinomial Lattice are:

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

The value derived from the Trinomial Lattice represents the value of options over existing shares. The options that Sealegs proposes to issue are in effect warrants and hence Sealegs will issue new shares when the options are exercised. Accordingly, an adjustment must be made to the value derived from the Trinomial Lattice to take into account the dilutionary effect of the options.

Furthermore, the value derived from the Trinomial Lattice represents the value of options which are freely tradable. Given that the options are not able to be traded, we have further adjusted the value derived from the Trinomial Lattice to allow for the lack of marketability of the options.

4.2 Valuation Assessment

Trinomial Lattice Valuation Parameters

The key variables applied in our assessment of the value of the Broadley Options are:

- valuation date – 28 November 2011, being the expected grant date
- exercise price – $0.14 per share
- the risk free rate – 3.3% (based on the current yield on New Zealand Government 15 April 2015 bonds)
- the current market value of the Sealegs' shares – $0.15 (based on the one month VWAP)
- volatility – 70% (based on the observed volatility levels of movements in Sealegs' share price)
- the time to expiry – based on each series' exercise period
- expected distributions – no dividends are paid during the exercise periods
- barrier terms – the trigger prices and trigger dates for each series.

Dilutionary Effect

The Trinomial Lattice assumes that the options are over existing shares. However, the Broadley Options are akin to warrants. Sealegs will need to issue new shares when the options are exercised and therefore the new shares will have a dilutionary effect. This is taken into account in our valuation.

Discount for Restrictive Terms

The Trinomial Lattice assumes that the options being valued can be sold on an active and liquid secondary market. The terms of the options forbid the trading of these options. There is also an argument that, due to management risk aversion, senior executives exercise options early and in some instances sub optimally. Accordingly, a discount to the value derived from the Trinomial Lattice is required to reflect the restrictive terms and the potential early exercise. We have applied a discount of 20% to the values assessed under the Trinomial Lattice (adjusted for dilution).

4.3 Valuation Conclusion

Based on the above, we assess the fair value of the Broadley Options as at 28 November 2011 to be follows:

- Series A – $0.050 per option
- Series B – $0.037 per option.

The total value of the Broadley Options as at 28 November 2011 is set out below.

Value of Broadley Options			
Series	**Value per Option $**	**No. of Options per Executive**	**Value of Series $**
A	0.050	750,000	37,500
B	0.037	750,000	27,750
		1,500,000	65,250

The assessed value of approximately $65,000 averages to approximately $33,000 per annum over the 2 year period that the options cover.

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

5.1 Sources of Information

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

- the draft notice of special meeting
- the Sealegs annual reports for the years ended 31 March, 2009 to 2011
- the Sealegs half year report for the 6 months ended 30 September 2011
- the draft option agreements between Sealegs and Mr Broadley and Mr Glen
- share price data and shareholder data in respect of Sealegs from NZX Data, Computershare and Capital IQ.

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

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Broadley Options and the Share Buyback that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

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

In our opinion, the information to be provided by Sealegs to the Non-associated Shareholders is sufficient to enable the Board and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Broadley Options and the Share Buyback.

5.2 Reliance on Information

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

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

5.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Sealegs will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Sealegs and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

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

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

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

5.4 Indemnity

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

6. Qualifications and Expertise, Independence, Declarations and Consents

6.1 Qualifications and Expertise

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

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

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

6.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Sealegs, Avenport or Mr Broadley that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the Broadley Options or the Share Buyback or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the Broadley Options or the Share Buyback. We will receive no other benefit from the preparation of this report.

6.3 Declarations

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

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

6.4 Consents

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

Peter Simmons
Director
Simmons Corporate Finance Limited
3 November 2011