BlueSkyMeats

New Zealand farmed, Southern fresh

BLUE SKY MEATS (N.Z.) LIMITED
INDEPENDENT ADVISER'S REPORT

In respect of the full Takeover Offer by NZ Binxi (Oamaru) Foods Limited

CAMPBELL MACPHERSON LTD

CORPORATE ADVISORS

30 November 2016

STATEMENT OF INDEPENDENCE

Campbell MacPherson Limited confirms that it:

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

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

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$	New Zealand Dollars
Alliance	Alliance Group Limited
Binxi Cattle Group	Heilongjiang Binxi Cattle Industry Co Limited
Blue Sky; the Company	Blue Sky Meats (N.Z.) Limited
Board	The Board of Directors of Blue Sky
Bovine	An animal of the cattle group
BRC	British Retail Consortium
Campbell MacPherson	Campbell MacPherson Limited
Code	The Takeovers Code
DCF	Discounted cash flow
EBIT	Earnings before net interest and tax
EBITDA	Earnings before net interest, tax, depreciation and amortisation
EU	European Union
EV	Enterprise value
FSE	Future sustainable earnings
FY	Financial Year
Gore Plant	Blue Sky's bovine processing plant located in Gore
Lean Meats	Lean Meats Oamaru Limited
Horizon Meats	Horizon Meats New Zealand Limited
MIE	Meat Industry Excellence
Morton Mains Plant	Blue Sky's ovine processing plant located near Invercargill
NPV	Net present value
NZ Binxi; the Offeror	NZ Binxi (Oamaru) Foods Limited
Offer	A full takeover offer by NZ Binxi for all of the equity securities of Blue Sky that NZ Binxi does not already own
Offer Document	Offer Document issued by NZ Binxi dated 21 November 2016
OIO	Overseas Investment Office
Ovation	Ovation New Zealand
Ovine	Relating to sheep
Report	This Independent Adviser's Report
SFF	Silver Fern Farms
Unlisted	Unlisted financial product market
VWAP	Volume weighted average price

1.1 Background

Blue Sky Meats (N.Z.) Limited **(Blue Sky**; the **Company**) is a New Zealand company and meat processing business that operates two processing plants in the South Island of New Zealand producing a range of lamb, beef, venison and other related products, mainly for export.

Blue Sky has a single class of equity securities on issue being 11,526,098 ordinary shares quoted on the "Unlisted" market (**Unlisted**). Unlisted is a New Zealand financial product market owned and operated by Efficient Market Services Limited. Unlisted is not a licensed financial product market. Blue Sky has a market capitalisation on Unlisted of approximately $15 million as at 15 November, 2016 ($1.30 per share).

During 2016 the Directors of Blue Sky commenced a process to identify a suitable buyer for the Blue Sky business. Interested parties were invited to submit proposals. NZ Binxi (Oamaru) Foods Limited (**NZ Binxi**; the **Offeror**) presented a proposal and undertook due diligence on the Company. NZ Binxi subsequently acquired 1,559,422 ordinary shares in Blue Sky during the period to 17 November 2016.

NZ Binxi is currently the third largest shareholder in Blue Sky with 1,559,422 ordinary shares, representing 13.53% of the voting securities on issue. Other substantial security holders of Blue Sky are Lowe Corporation Limited (**Lowe Corporation**) (17.95%), H.W. Richardson Group Limited (**H.W. Richardson Group)** (14.43%) and Blue Star Corporation Limited (**Blue Star**) (11.25%).

On 4 November 2016, Blue Sky announced that it had received a takeover notice under the Takeovers Code (the **Code**) from NZ Binxi giving notice of NZ Binxi's intention to make a full takeover offer (**Offer**) for all of the equity securities of Blue Sky that it does not already own. The formal Offer period commenced on 21 November 2016 and closes on 31 January 2017, unless extended by NZ Binxi in accordance with the Code.

Blue Sky is a Code company. The Directors of Blue Sky, none of whom are associated with NZ Binxi, have engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare an Independent Adviser's Report in accordance with Rule 21 of the Code (the **Report**). This Report provides an evaluation of the merits of the Offer.

1.2 NZ Binxi

NZ Binxi is a 100% owned subsidiary of Heilongjiang Binxi Cattle Industry Co Limited (**Binxi Cattle Group**). Binxi Cattle Group was formed in 2006 and operates a vertically integrated beef business in China comprising meat processing plants, beef fattening feedlots, slaughter and processing, organic fertiliser production and a chain of 80 retail stores. In 2014 NZ Binxi purchased 24.9% of New Zealand meat processor Lean Meats Oamaru Limited (**Lean Meats**) and subsequently completed the acquisition of 100% of Lean Meats in late 2015.

Binxi Cattle Group has indicated to Blue Sky that it wishes to grow its NZ Binxi business and, in line with this strategy, it has made the Offer for Blue Sky. NZ Binxi has stated in its Offer that it has no present intention to make any material changes to the business activities, material assets or capital structure of Blue Sky other than capital improvements and any changes required to comply with the conditions of any Overseas Investment Office (**OIO**) approval. Further information on NZ Binxi is provided in Section 6 of this Report.

1.3 Offer Terms and Conditions

Offer and Consideration

The Offer by NZ Binxi is a full takeover offer for all of the equity securities of Blue Sky that it does not already hold. Accordingly, the Offer is for the remaining 9,966,676 shares currently held by parties other than NZ Binxi, representing 86.47% of the voting securities on issue.

NZ Binxi is offering Blue Sky shareholders cash consideration of **$2.20 per share.**

Conditions

The Offer is subject to the following minimum acceptance conditions that apply until the Closing Date (being the end of the Offer period):

Key Condition		
Minimum acceptance	(a)	NZ Binxi receiving acceptances that would result in NZ Binxi holding or controlling 90% or more of the voting rights in Blue Sky.
	(b)	If condition (a) above is waived by the Offeror, then NZ Binxi receiving acceptances that would result in NZ Binxi holding or controlling more than 50% of the voting rights in Blue Sky.

The Offer is also subject to the following conditions that apply during the period from 4 November 2016 to the Condition Date (being 30 days after the end of the Offer period):

Other Conditions	
No dividends or distributions	No dividends, bonuses, or other payments are authorised or paid.
No issue of equity securities	No shares, convertible notes or other equity securities are issued or agreed to be issued (subject to certain exemptions).
No alteration of securities	No alteration to the rights, benefits, entitlements and restrictions attaching to any of the equity securities or financial products of the Company.
No proceedings	No legal action or other proceedings are taken against the Company or its subsidiaries.
Business as usual	Blue Sky continues to operate in the normal and ordinary course of business.
No liquidation etc.	No liquidator, receiver, statutory manager or similar is appointed to the Company or its subsidiaries.
No resolutions	No Blue Sky board or shareholder resolutions are passed to do or authorise any of the above acts.
Overseas Investment Office Approval	NZ Binxi receives approval from the OIO to complete the acquisition of the shares in accordance with the Offer.
No material adverse changes	No material adverse changes (as defined in the Offer) occur.
Maintenance of records	All records relating to production history for the purposes of quota allocation are maintained by Blue Sky.
No Board exercise of powers	No Board exercise of certain powers (as described in the Offer).

Further details on the conditions of the Offer are contained in the Offer Document issued by NZ Binxi dated 21 November 2016 (the **Offer Document**).

The Offer will only proceed if all conditions are satisfied or, to the extent permissible, are waived by NZ Binxi.

1.4 Arrangements with Existing Shareholders

No Lock-up Arrangements

No shareholder has agreed to accept NZ Binxi's Offer prior to NZ Binxi formally making the Offer. However, we note that during the period to 17 November 2016 NZ Binxi approached selected existing shareholders in Blue Sky and acquired a total of 1,559,422 shares. All shares were acquired at a price of $2.20 per share, the same price per share as specified in the Offer. The terms of purchase of these shares from each vendor include an "escalation clause" such that, if within 12 months of the date of purchase, NZ Binxi acquires shares in Blue Sky for a cash price greater than $2.20 per share then NZ Binxi is required to pay each vendor an additional amount per share equal to the difference between the new purchase price and $2.20 per share.

The majority of the shares purchased by NZ Binxi to date were acquired from Graham and Jill Cooney (as trustees) who sold 1,000,000 of their 1,100,000 Blue Sky shares to NZ Binxi on 16 November 2016. Mr Cooney was, until recently, the Chairman of Blue Sky and has entered into an agreement to provide consultancy services to the Offeror for a period of 12 months.

Intentions of Directors and Substantial Security Holders

Of the existing Blue Sky Board of three Directors (the **Board**), only Peter Carnahan holds shares directly (via his family trust) in Blue Sky. The other two Directors each represent one of the substantial shareholders in Blue Sky, and do not hold any shares personally or through family trusts.

Mr Carnahan's family trust holds 33,332 Blue Sky shares representing 0.29% of the voting securities and he is considered by the Board of Blue Sky to be the only Independent Director. Mr Carnahan has not disclosed his intentions in relation to the NZ Binxi Offer for his shares.

The intentions of the substantial shareholders of the Company (excluding NZ Binxi) in relation to accepting or rejecting the Offer are summarised below:

Substantial Shareholder	No of Shares	% Shares	Intention
Lowe Corporation Limited	2,068,374	17.95%	Undisclosed
H.W. Richardson Group Limited	1,663,300	14.43%	Undisclosed
Blue Star Corporation Limited	1,296,748	11.25%	Undisclosed

1.5 Takeovers Code Requirements

Rule 6 of the Code (the "Fundamental Rule") prohibits:

- A person who holds or controls less than 20% of the voting rights in a Code Company from increasing its control of voting rights beyond 20%; or
- A person holding 20% or more of the voting rights in a Code Company from increasing its control of voting rights,

unless the person complies with the exceptions to the Fundamental Rule.

One of the exceptions, set out in Rule 7(a) of the Code, enables a shareholder to increase its shareholding beyond 20% of the voting rights by making a full takeover offer for all the equity securities in the target company that it does not already hold. Rule 21 of the Code requires that the directors of the target company must obtain an Independent Adviser's Report on the merits of any takeover offer. The Independent Adviser's Report is required to accompany the Target Company Statement to be sent to all of the target company's shareholders.

1.6 Issue of the Report

The Directors of Blue Sky have engaged Campbell MacPherson to prepare an Independent Adviser's Report on the Offer in accordance with Rule 21 of the Code. Campbell MacPherson was approved by the Takeovers Panel on 7 November 2016 to prepare the Independent Adviser's Report.

Campbell MacPherson issues this Report to assist the shareholders of Blue Sky in forming their own opinion on whether to accept the Offer. We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Offer in relation to each individual shareholder. This Report is therefore necessarily general in nature. This Report is not to be used for any other purpose without our prior written consent.

1.7 Other

The sources of information that Campbell MacPherson has had access to and relied upon in relation to the preparation of this Report are set out in Appendix I. This Report is provided to the shareholders of Blue Sky subject to the statements set out in Appendix II.

References to $ relate to New Zealand dollars unless otherwise specified. References to years or financial years (**FY**) means Blue Sky's financial year ending 31 March. Summary information and tables may not add due to rounding.

2. MERITS OF THE OFFER

2.1 Basis of Evaluation

Rule 21 of the Code requires an evaluation of the merits of the Offer. 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 updated 13 October 2016;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the Offer;
- Overseas precedents; and
- The ordinary meaning of the term "merits".

We are of the view that an assessment of the merits of the Offer should focus on the following:

- Our assessed value of 100% of the shares in Blue Sky.
- The value of the consideration offered for the shares.
- Analysis of the Offer terms and conditions.
- Potential outcomes of the Offer and implications for the ownership and control of Blue Sky.
- Any alternative offers received by Blue Sky.
- Other positive aspects of the Offer.
- Other negative aspects of the Offer.

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

2.2 Blue Sky Fundamentals

Blue Sky is a well-established "second tier" player in the New Zealand meat processing industry. The industry is highly competitive and suffers from significant processing overcapacity, resulting in plant under-utilisation and annual pressure to secure livestock at reasonable prices. This is particularly the case for lamb as a result of declining national sheep numbers, which are now at their lowest levels since the 1930's. Industry performance is also strongly influenced by export meat prices and foreign exchange rates in key export markets. Further analysis on the New Zealand meat industry is provided in Section 3 of this Report.

Blue Sky has recognised the challenges in its core lamb processing market and has sought to diversify and expand its operations, including the acquisition of the beef and deer processing operations of Clover Export Limited in December 2014. Whilst this has increased revenues, the acquisition has yet to deliver incremental profits to the Company.

Seasonality of cash flows and profitability is a significant risk factor for the business and Blue Sky has substantial annual working capital facilities in place in order to procure and process livestock. This seasonality increases business risk since losses are incurred for approximately half of every financial year, offset by profits during the balance of the year.

The structural and seasonal challenges of the meat processing sector are reflected in the volatility in the historic earnings of Blue Sky over the past six financial years, with profitability (at the EBITDA level) varying from $7.67 million to a loss of $3.48 million. Key Blue Sky historic metrics are shown below.

Blue Sky Meats - Summary Historic Metrics						
NZ$000's	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16** [1]
Total kill (000's)	741	748	677	698	694	746
Revenue	100,804	114,135	97,433	95,281	102,133	123,975
Gross Profit	15,079	7,800	3,766	11,380	11,690	8,230
EBITDA	**7,673**	**890**	**(3,484)**	**4,013**	**3,154**	**(902)**
EBITDA Margin	*7.6%*	*0.8%*	*-3.6%*	*4.2%*	*3.1%*	*-0.7%*
EBIT	**6,575**	**(299)**	**(4,667)**	**2,991**	**2,144**	**(2,070)**
EBIT Margin	*6.5%*	*-0.3%*	*-4.8%*	*3.1%*	*2.1%*	*-1.7%*

1. FY16 includes the first full year of ownership of the Gore Plant.

Blue Sky is currently tracking below budget for FY17 due to continuing losses at the Gore Plant. Blue Sky management are currently forecasting a full year EBITDA of $2.8 million.

Following the appointment of new CEO Todd Grave in September 2016 the Company has started a comprehensive review of its operations and potential for improvements to its operating and financial performance.

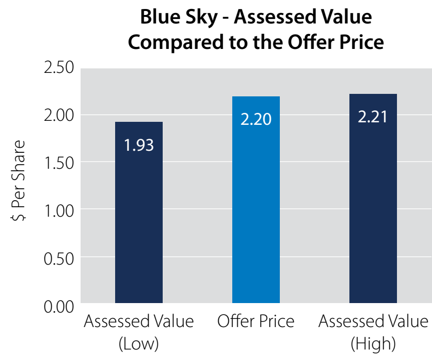
Whilst this strategic review (the **Strategic Review)** remains a "work-in-progress" initial analysis and modelling work has been completed by the Company in November 2016. This modelling has identified targets for incremental gains in EBITDA of $2.48 million in FY18, a further $1.71 million in FY19 and a further $2.39 million in FY20. Further information is provided in Section 4.7 of this Report.

2.3 Pricing and Valuation

Assessed Value of the Shares

Campbell MacPherson has assessed the value of Blue Sky to be in the range of $1.93 to $2.21 per Share, as set out in Section 5. Our assessed value range is inclusive of a premium for control and therefore reflects the value of 100% of the Company. In the absence of a takeover offer for 100% of the Company, we would not expect Blue Sky's traded share price for a minority parcel of shares to reflect this valuation.

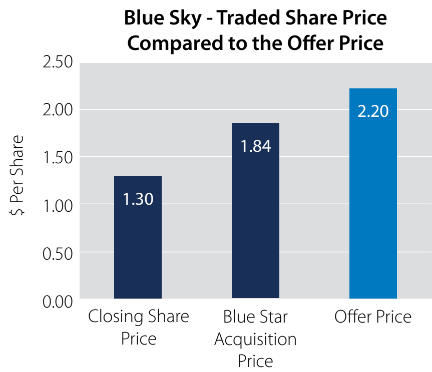
The cash consideration offered by NZ Binxi of $2.20 per share falls within our assessed valuation range for Blue Sky.



Implied Premium to the Traded Share Price

Blue Sky's traded share price naturally incorporates a minority discount, reflecting the lack of control inherent in a minority shareholding. When 100% of a company is acquired, the purchaser will typically pay a premium to the traded share price, reflecting the full value of the company. Furthermore, in the case of Blue Sky, it is unlikely that the observed share price on the Unlisted market fully reflects the market value of the Company given its very low level of liquidity (i.e. share trading).

Prior to the announcement of a potential takeover offer, Blue Sky's closing share price on the Unlisted platform was $1.30 per share. We also note that the most recent trade of a substantial block of shares occurred in 2014 when Blue Star acquired an 11.25% stake in Blue Sky at a price of $1.84 per share. The Offer price of $2.20 per share therefore reflects a premium of approximately 69% to the Company's closing share price on Unlisted and a 20% premium to the price paid by Blue Star.



2.4 Potential Synergies

As at the date of this Report NZ Binxi has provided limited public information regarding potential benefits of the acquisition of Blue Sky. In its Offer Letter dated 21 November 2016 NZ Binxi suggests that together Blue Sky and NZ Binxi offer:

- Complementary business capabilities.
- Ability to develop a scalable beef business.
- A multi species, multi-plant lower South Island meat business.
- A highly experienced management team.

We are advised by the Directors of Blue Sky that in their view, whilst the acquisition by NZ Binxi may provide potential benefits to Blue Sky, such as expanded distribution into China, rationalisation of administration costs and an expanded geographic footprint for livestock procurement, these benefits (if any) have not been assessed by the Blue Sky Board.

2.5 Overseas Investment Office Application

As noted in Section 1.3, the Offer is conditional upon NZ Binxi receiving all necessary consents from the OIO to enable it to complete the acquisition of Blue Sky shares in accordance with the terms of the Offer. OIO approval is required because the transaction involves more than 5 hectares of land and NZ Binxi is deemed an overseas based company.

As at the date of this Report Blue Sky has not received any confirmation from NZ Binxi as to whether or not NZ Binxi has lodged its application with the OIO. We note that, whilst the OIO publishes performance targets for assessing different types of applications, the OIO provides no guarantee of the time it will take for any particular application to be assessed.

2.6 Potential Outcomes of the Offer

The Offer terms and conditions are relatively straightforward, with NZ Binxi offering cash consideration for all Blue Sky shares on issue that it does not already hold. However, as noted in Section 1.3, the Offer has a minimum acceptance condition for the shares (90% acceptance or greater than 50% acceptance at the Offeror's discretion) and the requirement for OIO approval, which add complexity and risk to the overall Offer and its potential outcomes.

NZ Binxi may waive the 90% minimum acceptance condition provided that it receives acceptances for shares that will result in it holding more than 50% of the total shares in the Company.

Potential Outcomes

Due to the minimum acceptance condition of the Offer, as well as a number of the other Offer conditions, and given NZ Binxi's rights to waive many of these conditions at its sole discretion, there are a range of potential outcomes of the Offer. These potential outcomes are discussed further below. The implications of NZ Binxi reaching key ownership thresholds in the Company are set out in Section 2.7, including the implications of NZ Binxi completing a full takeover of 100% of Blue Sky's share.

Outcome	Commentary
NZ Binxi secures 90% or more of the shares	In the event that NZ Binxi secures 90% or more of the shares, then NZ Binxi is entitled to enact the compulsory acquisition provisions under the Code and move to compulsorily acquire 100% of the equity securities outstanding on the compulsory acquisition date (i.e. any remaining shares). If NZ Binxi does not do so, remaining Blue Sky shareholders can require NZ Binxi to acquire their shares at the Offer price.
NZ Binxi secures 50% or less of the shares	In the event that NZ Binxi is unable to secure more than 50% of the shares, then the Offer will lapse. If NZ Binxi was concerned that this was going to occur, it may (although there is no guarantee that it would) elect to increase its Offer price for the shares, provided that it does so before the Offer closes.
NZ Binxi secures more than 50% of the shares but less than 90% of the shares	In the event that NZ Binxi secures more than 50% of the shares but less than 90% of the shares, then it can elect to: i. Allow its Offer to lapse; ii. Increase its Offer price for the shares; or, iii. Waive the 90% minimum acceptance condition for the shares.
A third party makes a competing takeover offer	It is possible that another party could make a competing takeover offer for Blue Sky's shares during the Offer period. Any shareholders who have already accepted the Offer from NZ Binxi cannot accept any other offer unless or until NZ Binxi's Offer lapses or is withdrawn. Shareholders who have not accepted the Offer from NZ Binxi would be able to accept (or reject) any competing offer.

We note that, in the event that the Offer does not become unconditional, then the Offer will lapse and all accepting shareholders will be released from their obligations under the Offer.

NZ Binxi could also launch a new takeover offer at any time thereafter should it wish to do so, at any price. Any shareholders who accept the current Offer will not receive the benefit of any price uplift (if any) resulting from a future offer.

Minimum Acceptance Condition for the Shares

The 90% minimum acceptance condition for the shares has been set at this level by NZ Binxi since a holder of 90% or more of the voting securities of a company is able to enact the compulsory acquisition provisions under the Code and move to compulsorily acquire 100% of all of the remaining shares outstanding on the compulsory acquisition date.

As NZ Binxi already holds 13.53% of the Blue Sky shares, it will require acceptances from shareholders holding a further 76.47% of the current shares on issue (i.e. 8,814,067 shares) in order to reach the 90% threshold. The ability of NZ Binxi to reach its 90% minimum acceptance threshold will be directly influenced by the acceptance (or rejection) of the Offer by the other substantial shareholders in Blue Sky.

We note that, in the event that any one of Lowe Corp, H.W. Richardson Group or Blue Star declined to accept the Offer, the 90% minimum acceptance condition would not be met. Shareholders may therefore wish to track the acceptance or rejection of the Offer by these substantial shareholders prior to making their own decision. Any shareholders contemplating this strategy need to be cognisant of the potential dangers of doing so given the risk that these substantial shareholders could conceivably decide to accept on the last day of the offer and so tracking shareholders may not find out in time.

In the event that any of these substantial shareholders accepted the Offer within the last seven days of the Offer period, and that acceptance resulted in the minimum acceptance condition being satisfied or waived, then the Offer period would automatically be extended by a period of 14 days in order to give remaining shareholders further time to accept the Offer should they wish to do so.

2.7 Implications of Increasing NZ Binxi's Ownership of Blue Sky

Shareholder Voting

There are a number of key thresholds in relation to the voting rights of shareholders under the Blue Sky constitution.

- Ordinary resolutions require passing by more than 50% of votes of holders of securities who are eligible to vote and voting.
- Special resolutions require passing by 75% or more of votes of holders of securities who are eligible to vote and voting.
- A shareholder holding more than 25% of the voting securities of a company is able to block a special resolution.
- A shareholder holding more than 50% of the voting securities of a company is able to pass an ordinary resolution.
- A shareholder holding 50% or more of the voting securities of a company is able to block an ordinary resolution.
- A shareholder holding 75% or more of the voting securities of a company is able to pass (or block) both ordinary resolutions and special resolutions.

Blue Sky shareholder's ability to influence voting on ordinary or special resolutions may also be impacted by other legal and regulatory factors such as the Companies Act and the Takeovers Code.

The powers that can be exercised by an ordinary resolution of Blue Sky shareholders include:

- approval of certain non pro-rata share issues;
- appointment or removal of directors;
- appointment of auditors and authorisation of the Directors to fix the auditors remuneration; and,
- decisions involving Director's remuneration and other benefits.

The powers that can be exercised by a special resolution of Blue Sky shareholders are listed in the Company's constitution as follows:

- an alteration to, or revocation of, the constitution or the adoption of a new constitution;
- approval of a major transaction;
- approval of an amalgamation; and
- placing the Company into liquidation.

A shareholder holding less than the 50% or 75% thresholds referred to above may still have significant influence when voting on ordinary or special resolutions in the event that other shareholders are ineligible to vote or choose not to vote (to the extent that this increases the effective voting power of those shareholders that do vote).

Ownership and Control Implications of the Offer

Subject to the success or otherwise of the Offer, NZ Binxi will hold 13.53% (i.e. its current position) or it will hold more than 50% (and up to 100%) of the voting securities of Blue Sky. The key implications for Blue Sky shareholders are summarised below for the following key ownership and control scenarios we anticipate could be reached by NZ Binxi as a result of the Offer, being:

Scenario 1	The Offer is unsuccessful
Scenario 2	Full Takeover – NZ Binxi holds 100% of the voting securities.
Scenario 3	NZ Binxi holds more than 50%, but less than 90% of the voting securities.
• **Scenario 3(a)**	NZ Binxi holds more than 50%, but less than 75% of the voting securities.
• **Scenario 3(b)**	NZ Binxi holds 75% or more, but less than 90% of the voting securities.

Scenario 1 – The Offer is Unsuccessful

In the event that NZ Binxi is unable to secure more than 50% of the shares, then following the Offer it will continue to hold a minority position of 1,559,422 shares in Blue Sky, representing 13.53% of the voting securities on issue. NZ Binxi currently has no representation on the Board of Directors of Blue Sky and it has not indicated its intentions in relation to its investment in Blue Sky in the event that its Offer is unsuccessful.

Scenario 2 – NZ Binxi Acquires 100% of the Voting Securities

In the event that NZ Binxi secures 100% of the voting securities of Blue Sky (i.e. its full takeover offer is successful) it has not signalled its intentions in relation to the Company's presence on the Unlisted market. However, in our view it is highly likely that Blue Sky will terminate its presence on this market as there will be no further requirement for a trading platform for the Blue Sky shares.

NZ Binxi has indicated in its Offer that it has no present intention to make any material change to the business activities, material assets or capital structure of Blue Sky other than:

- capital improvements to plant and machinery as may be required to enhance efficiency, for environmental compliance or for health and safety best practice; and
- any changes required to comply with the conditions of any OIO approval.

However, NZ Binxi reserves its right to make any such changes in the future.

Scenario 3 – NZ Binxi acquires more than 50%, but less than 90% of the Voting Securities

Blue Sky has asked NZ Binxi to provide further information on a number of key matters in the event that NZ Binxi waives the 90% minimum acceptance condition and proceeds to complete the takeover, leaving it with a shareholding which is above 50% but below the 90% compulsory acquisition threshold. NZ Binxi has declined to provide any further information on matters such as:

(a) board composition;

(b) future dividend policy;

(c) strategy/any changes in strategic direction;

(d) future growth, business opportunities and funding;

(e) the continuation of Blue Sky's participation on the Unlisted market;

(f) future capital requirements and capital expenditure plans;

(g) any arrangements between Blue Sky and NZ Binxi;

(h) the continuation of the banking facilities currently held by Blue Sky;

and has referred Blue Sky back to the statements made by NZ Binxi in its Offer Document (as outlined in Scenario 2 above). It is therefore unclear how remaining minority shareholders might be affected by NZ Binxi's plans for Blue Sky nor what the value implications might be for the Company in the near or longer term.

We note that, in the event NZ Binxi holds more than 50% of the voting securities of Blue Sky, it will be able to appoint or remove Directors of Blue Sky. This may result in significant changes to the current Board of Directors as we would expect NZ Binxi to seek majority Board representation as the major shareholder. Blue Sky is not subject to any regulatory requirement to have independent directors.

We also note that, under the "creep" provisions of the Takeovers Code NZ Binxi would be entitled, following a 12-month period after the Offer, to acquire up to an additional 5% shareholding in Blue Sky per annum without the need to make a further takeover offer.

Scenario 3(a) – NZ Binxi Acquires more than 50%, but less than 75% of the Voting Securities

This scenario is a subset of Scenario 3 and therefore all of our comments under that scenario are relevant together with the following additional comments.

In the event that NZ Binxi increases its holding of the voting securities of Blue Sky to above 50%, but remains below 75%, then it will become the majority shareholder in the Company and will be able to block or pass ordinary resolutions of Blue Sky shareholders. This will result in NZ Binxi materially increasing its control of the Company. Under this scenario minority shareholders in Blue Sky would likely have limited ability to influence the Company, its future direction or the future timing and quantum of distributions to shareholders. Shareholders may also be subject to dilution in the event that the Board (which would be controlled by NZ Binxi) approved future new share issues.

Assuming all shareholders are eligible to vote and choose to vote against a special resolution, then NZ Binxi would not be able to pass a special resolution. However, we note that the closer NZ Binxi gets to the 75% threshold the more likely that, even with a shareholding of less than 75%, it may be able to pass a special resolution depending on the number of other Blue Sky shareholders who are eligible and/or elect to exercise their vote on any given resolution.

Scenario 3(b) – NZ Binxi Acquires 75% or more, but less than 90% of the Voting Securities

This scenario is a subset of scenario 3 and therefore all of our comments under that scenario are relevant together with the following additional comments.

In the event that NZ Binxi secures 75% or more of the voting securities, but less than 90% of the voting securities, it would have sufficient voting rights to pass special resolutions of Blue Sky shareholders. This would place NZ Binxi in a very strong majority control position. Under this scenario minority shareholders in Blue Sky would likely have very little ability to influence the Company, its future direction or the future timing and quantum of distributions to shareholders. Shareholders may also be subject to dilution in the event that the Board (which would be controlled by NZ Binxi) approved future share issues.

We note that, Blue Sky will be required to comply with the provisions of Clause 14.4 of its Constitution and the Companies Act, including Section 129 in relation to major transactions, Section 109 and 110 in relation to minority buyout rights and Sections 117 and 118 in relation to actions that affect the rights attaching to shares. These provisions provide a degree of protection for minority shareholders in the event of;

- Alteration of the constitution where such alteration imposes or removes a restriction on the activities of the Company;
- Approval of a major transaction or an amalgamation; or
- Alteration of the constitution which affects the rights of minority shareholders.

2.8 Other Factors for Blue Sky Shareholders to Consider

Likelihood of Additional Information being Provided

Blue Sky has stated in the covering letter accompanying its Target Company Statement that it intends to provide further guidance to shareholders in January 2017. Blue Sky has indicated that this will allow the Board and management of the Company further time to work on the Strategic Review. It is unclear at this point what additional information Blue Sky may provide to shareholders during the Offer period nor what the implications might be for shareholders in relation to each shareholder's decision to accept or reject the Offer.

NZ Binxi has stated in the covering letter accompanying its Offer that it intends to invite Blue Sky shareholders to a meeting to provide interested shareholders with further information about NZ Binxi and its intentions for Blue Sky, as well as to assist in answering any questions shareholders may have. Neither Blue Sky nor Campbell MacPherson are aware of the information NZ Binxi intends to provide at this meeting nor what the implications might be for shareholders in relation to each shareholder's decision to accept or reject the Offer.

Likelihood of NZ Binxi extending the Offer Period

In the event that NZ Binxi does not reach the 90% minimum acceptance threshold for Blue Sky shares, then NZ Binxi will need to make a decision, prior to the closing date of the Offer, on whether to extend the Offer, increase its Offer price or pursue other options available to it. The Offer is open for 72 days from 21 November 2016 until the closing date of 31 January 2017, unless otherwise extended by NZ Binxi in accordance with the Code.

NZ Binxi is entitled to extend the Offer up to an initial maximum of 90 days. If NZ Binxi wishes to extend the Offer beyond the 90 day maximum, it may do so for up to a maximum of a further 60 days provided that it;

a) satisfies or waives its 90% minimum acceptance condition; and,

b) has satisfied its >50% minimum acceptance condition.

The 60 day extension is from the date on which the above criteria are satisfied.

If NZ Binxi receives acceptances giving it control of less than 50% of the voting securities of Blue Sky, then it will be unable to extend the Offer beyond the 90 day limit and the Offer will lapse.

We note that, under Rule 24C of the Code, the Offer period will extend automatically for 14 days if a minimum acceptance condition is satisfied or waived in the period that begins 7 days before the end of the Offer period.

Likelihood of NZ Binxi increasing its Offer Price

The likelihood of NZ Binxi increasing its Offer Price is subject to a number of factors including:

- The total level of acceptances received during the Offer period.
- The acceptance (or non-acceptance) of the Offer by the substantial security holders of Blue Sky.
- The existence (or absence) of any competing offer and the price and terms of that offer.

The inclusion by NZ Binxi of both a 90% minimum acceptance condition and (failing that) a minimum 50% acceptance condition indicates potential willingness by NZ Binxi to accept majority control in the event that a full takeover cannot be achieved at the current Offer price.

Likelihood of an Alternative Offer

In our view, the likelihood of a competing full takeover offer during the Offer period is low. We note that the success of a competing full takeover offer would require NZ Binxi (as a holder of more than 10% of the voting securities of Blue Sky) to accept such an offer in order for the competing bid to reach the 90% threshold required to enact the compulsory acquisition provisions under the Code. Such approval is considered highly unlikely.

There is however some potential that a competing takeover offer could be made during the Offer period, for example, seeking ownership of not less than 50% of the voting securities on issue, or which is framed as a full takeover offer but which is conditional on minimum acceptances for more than 50% of the shares. The Offer period of 72 days (subject to extension) provides ample opportunity for other parties to approach the Board of Blue Sky or make their own unsolicited offer directly to Blue Sky shareholders.

The Board of Blue Sky has advised Campbell MacPherson that the Company ran a confidential competitive sale process to seek expressions of interest for its business during 2016 and had discussions with a number of parties interested in acquiring the shares or assets of the business. As a result of this process, a number of indicative non-binding offers were received for Blue Sky. The Board carefully reviewed both the offer price, terms and capabilities of the various potential bidders before selecting a single party, NZ Binxi, to undertake due diligence. We are advised by the Board that none of the existing substantial shareholders of Blue Sky tabled indicative offers for the Company during the sale process.

Following receipt of the Offer, the Board of Blue Sky has had confidential discussions with a number of parties who showed interest in Blue Sky during the competitive process. This process is ongoing, however, the Board advises no realistic alternative proposals have been received to date.

Shareholders should also note a recent news article[1] dated 21 November in which Alliance Group indicated “it did not plan to join the bidding race” for Blue Sky.

It is important to note that, in the event NZ Binxi receives acceptances such that its holds more than 50% of the shares but less than 90% of the shares, the likelihood of a takeover offer by a third party in the future will be much lower, since any full takeover offer at that point would not succeed unless accepted by NZ Binxi. There is therefore a significant risk that minority shareholders seeking to sell their shares in the future may receive a price substantially below the current Offer price.

1. The NZ Farmers Weekly, November 21 2016, page 12.

Opportunity to Exit

The Offer price of $2.20 per share provides an opportunity for those shareholders wishing to exit their investment in the Company to do so at a significant premium to the last traded price on the Unlisted market (prior to the Offer) of $1.30 per share, and at the same price at which other Blue Sky shareholders sold to NZ Binxi in “off-market” transactions prior to the Offer.

Furthermore, due to its volatile earnings, Blue Sky has not paid a regular dividend to its shareholders in recent years.

We note that, prior to the recent acquisition of shares by NZ Binxi, Blue Sky shares were highly illiquid and if the Offer is successful, it is likely to result in a substantial reduction the free float of available shares which may further exacerbate the lack of liquidity in the stock in the future.

2.9 Conclusions on the Merits of the Offer

In our view, there are a range of key issues that the shareholders of Blue Sky should give consideration to before making a decision on whether to accept or reject the NZ Binxi Offer. These issues are summarised below.

- Our assessed valuation range for Blue Sky is $1.93 to $2.21 per share, as set out in Section 5. This valuation range represents our view on the value of 100% of the Company and we would not expect minority parcels of shares to trade in this value range in the absence of a full takeover offer.
- The Offer price for the shares of $2.20 per share falls within our assessed valuation range.
- The Offer price for the shares represents a premium of approximately 69% to the Company's closing share price on Unlisted and a 20% premium to the price paid by Blue Star for its 11.25% stake in 2014.
- The Offer is payable in cash.
- 14 shareholders, representing 13.53% of the voting securities of Blue Sky, agreed to sell their shares to NZ Binxi at $2.20 per share in the month prior to the opening date of the Offer. These share trades are subject to an "escalation clause" in the event that NZ Binxi acquires shares in Blue Sky at a price above $2.20 per share within 12 months of the relevant trade.
- The historic financial performance of Blue Sky has been volatile. The business operates on low earnings margins reflecting the challenges of operating as a small player in the New Zealand meat sector where industry earnings margins are also typically low.
- Due to its volatile earnings, Blue Sky has not paid a regular dividend to its shareholders in recent years.
- In late November 2016, the Company completed financial modelling as part of a Strategic Review process. The Board of Blue Sky believes that the modelled initiatives could provide very significant incremental EBITDA gains by FY20, see Section 4.7 for further information. Campbell MacPherson has included part, but not all, of these potential incremental gains in our assessed valuation.
- Blue Sky shares are traded on the Unlisted market as well as via off-market trades between shareholders. Share trading is highly illiquid. The Offer therefore provides an opportunity for Blue Sky shareholders to exit their investment should they wish to do so.
- In our view the likelihood of alternative offers is low. NZ Binxi has already secured sufficient shares in Blue Sky to block any competing full takeover offer. Furthermore, the NZ Binxi offer was the result of a comprehensive sale process run by the Company, with NZ Binxi being the only party selected to undertake due diligence on Blue Sky.
- The key condition of the Offer is the minimum acceptance condition of 90% for the shares. Once NZ Binxi reaches 90% acceptance for the shares it will be able to enact the compulsory acquisition provisions of the Takeovers Code and acquire all of the remaining shares and proceed to 100% ownership of Blue Sky.
- A further key condition of the Offer is the minimum acceptance condition of more than 50% of the shares. In the event that NZ Binxi ultimately declares the Offer unconditional and subsequently holds more than 50% but less than 90% of the Blue Sky voting securities, then NZ Binxi will have majority control of the Company, including the ability to appoint and/or remove Directors and pass ordinary resolutions.
- Blue Sky has stated that it intends to provide further guidance to shareholders in January 2017. Blue Sky has indicated that this will allow the Board and management of the Company further time to work on the Strategic Review.

2.10 Acceptance or Rejection of the Offer

The closing date of the Offer is 31 January 2017 unless otherwise extended by NZ Binxi in accordance with the Code. Not accepting the Offer or waiting until near the time the Offer lapses could potentially result in an increase in the Offer price for some or all of the shares. However, there is no certainty that the Offer price will be increased. Shareholders that accept the Offer will receive the benefit of any increase in the Offer price for those shares which they held and for which the Offer price is increased, regardless of when they accept the Offer.

In the event that the current Offer does not result in NZ Binxi acquiring full ownership of Blue Sky then it is possible (but not certain) that NZ Binxi could make a further offer in the future. If NZ Binxi makes a subsequent offer for the Company at a higher price, any shareholders who accept the current Offer may not receive the benefit of any price uplift resulting from any subsequent offer.

Acceptance or rejection of the Offer is a matter for individual shareholders based on their own views regarding the value and other merits of the Offer, as well as their views on future market conditions, risk profile, liquidity preferences, portfolio strategy, tax position and other relevant factors. Shareholders will need to consider all of these factors and, if appropriate, consult their own professional adviser.

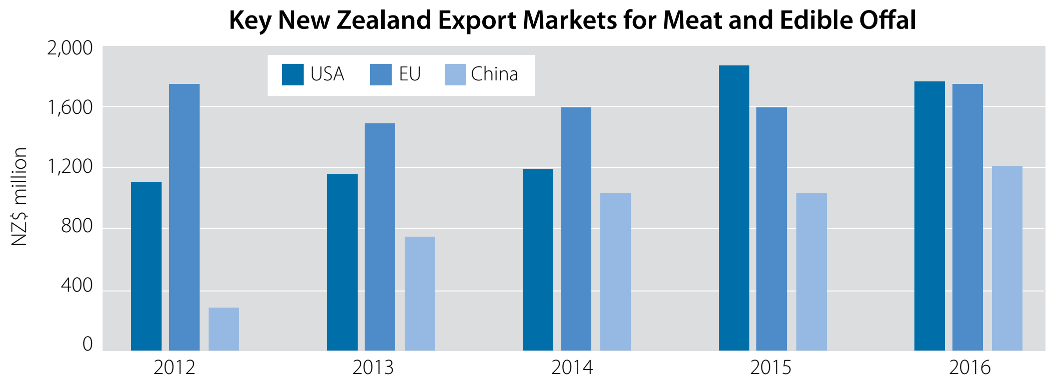
3. OVERVIEW OF THE NEW ZEALAND MEAT INDUSTRY

3.1 New Zealand Meat Industry

Traditionally the red meat industry has been a mainstay of the New Zealand economy and an important export earner. In the year to June 2016 the industry delivered export earnings of $6.6 billion, third only to the dairy and tourism sectors. Key features of the industry include:

- New Zealand is the dominant global lamb exporter, representing over 33% of the world trade.
- New Zealand and Australia combined export circa 70% of the world market for lamb.
- New Zealand is the eighth largest beef exporter in the world and third in relation to supplying the key markets of China and USA.
- New Zealand is the largest producer and exporter of farmed venison in the world.

The Chinese market for NZ meat products has grown rapidly, with the value of meat exports to China increasing over fourfold in the past five years. China is now the third largest market for NZ meat exports (by value) behind the USA and the European Union.



Source: Statistics NZ

During the past decade, the industry has demonstrated significant structural challenges that have delivered both weak financial performance and income volatility for meat processors and farmers. The primary weaknesses in the current meat industry structure include:

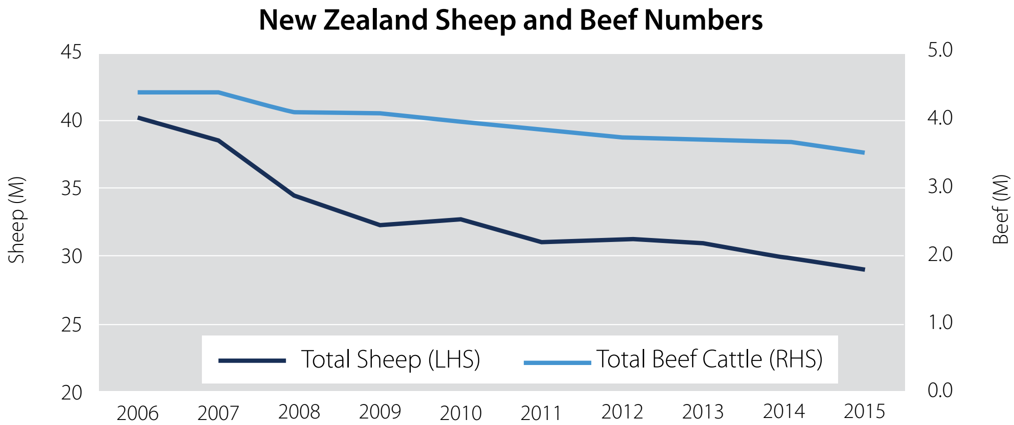
- Inadequate and inconsistent farm gate returns.
- Inadequate processor returns.
- Change of land use (particularly from sheep and beef to dairy production).
- The stock procurement model.
- Significant reduction in national livestock numbers, particularly sheep and lamb.
- Inefficient use of capital intensive meat processing plants leading to poor utilisation and higher operating costs.
- Lack of in-market co-ordination amongst New Zealand producers in key overseas markets.
- A proliferation of New Zealand meat exporters.
- A lack of vertical integration in the industry from pasture to plate, weakening signals from market demand to New Zealand farmers and meat processors.

Food products exported by the New Zealand meat industry are recognised as world class. There is a global shortage of protein and New Zealand lamb in particular has risen out of the commodity market to being seen as a high value delicacy alongside New Zealand venison. New Zealand's clean and green pastoral farming further enhances the image where both beef and lamb exports are seen as healthy and safe to eat.

3.2 Meat Processing Sector

In the sheep and beef processing sector the five largest processors kill around 85% of all sheep, lambs, and beef while a range of (predominantly) single plant operators including Blue Sky make up the remaining 15%. Deregulation of the industry in the late 1970's led to the emergence of new entrants with smaller plants which were more efficient than their larger (multi-plant) competitors.

Significant over-capacity has become evident with a reduction in the national lamb kill from 45 million in 1984 to 21.5 million in 2014. Whilst livestock supply for beef has remained relatively stable, there has been a switch to an increasing number of dairy cows at the expense of steers and bulls being raised for beef production.



Source: Statistics NZ

Fluctuations in livestock numbers vary throughout New Zealand reflecting specific weather events and pasture growing conditions. Cold and wet weather particularly during lambing is considered a major threat to lamb kill numbers in Otago and Southland.

Sheep farming productivity has improved in recent years due to various factors including changes in pastures/fertilisers and use of winter feeds, and also new breeding genetics leading to higher lambing percentages. Furthermore, while sheep and beef numbers have been declining, improved farming productivity has led to an increase in the number of stock units per farm and an increase in lamb weights/yields.

Fresh and chilled New Zealand lamb has been successfully promoted internationally as a premium meat product. An increasing number of meat processing companies such as Blue Sky are now providing speciality cuts and packaging to appeal to discerning customers. Halal killed sheep and lamb is also another form of customer differentiation.

Key Market Players

The Meat Industry Association currently has 26 processor/exporter members. In addition, there are some 60 processing plants certified to process and/or pack meat products for export (see Appendix 3).

Market players can be grouped into two key groups, "Tier 1" comprising the five largest meat processors, Silver Fern Farms (**SFF**), Alliance Group (**Alliance**), AFFCO, ANZCO and Ovation New Zealand (**Ovation**), and "Tier 2" comprising the smaller processors including Blue Sky and NZ Binxi. A brief summary of the major industry players is set out below:

Tier 1 Processors

Silver Fern Farms

- NZ's largest meat processing co-operative.
- Annual turnover of over $2.2 billion.
- Second largest ovine market share with 25% and the largest beef kill market share.
- Eight bovine and ovine sites (with three in the South Island).

Alliance Group

- Annual turnover of circa $1.4 billion.
- Primarily a South Island ovine co-operative.
- Largest ovine market share with 30%.
- Six ovine sites, with two smaller plants in the North Island.
- One large ovine site (Lorneville) has nearly 50% of the company's capacity.
- Three bovine sites in the South Island and one smaller plant in the North Island.

AFFCO

- A private company with turnover estimated at $1.2 billion p.a.
- Third largest ovine market share with 12%.
- Second largest bovine processor with 19% to 20% market share – equal to ANZCO.
- Six ovine sites with two in the South Island.
- Six beef sites with five in the North Island.

ANZCO

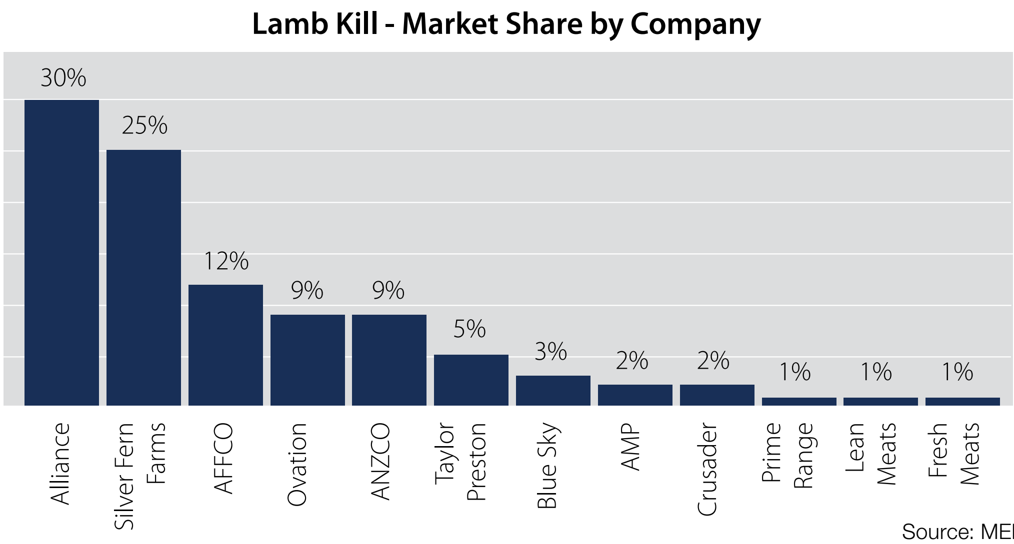
- A private company with turnover estimated at over $1.0 billion p.a.
- Shares fourth equal ovine market share with Ovation.
- Second largest bovine processor with 19% to 20% market share – equal to AFFCO.
- Spread between both North and South Islands.
- Operates New Zealand's only and highly successful beef feedlot near Ashburton.

Ovation New Zealand

- Privately owned North Island company with a very small beef operation.
- Shares fourth equal ovine kill market share with ANZCO.
- Recent upgrades to its Feilding processing site.
- Considered best practice.

Tier 2 Processors (Excluding Blue Sky)

Taylor Preston	• Wellington based with a multi specie plant for export and local market.
Auckland Meat Processors	• Auckland based with the largest multi-specie plant in NZ.
United Beef Packers	• Te Kuiti based and regarded as one of the better operations in the beef processing sector with good throughout and low overheads.
Crusader	• Privately owned single plant ovine processor in the North Island.
Other	• Prime Range, Lean Meats (NZ Binxi), Fresh Meats, Davmet and Progressive Meats. • Davmet and Progressive Meats.



Source: MEI

A major development in the past year has been the recapitalisation of leading industry player Silver Fern Farms. In late 2015 SFF shareholders approved a deal struck with Chinese company Shanghai Maling to invest $260 million to acquire a 50% shareholding in SFF. The investment was structured so that SFF would remain a 100% farmer-controlled cooperative. This transaction was approved by the OIO in September 2016 and is expected to be completed prior to the end of this year.

Inefficiencies / Over-Capacity

The meat industry has undertaken numerous reports and set up task forces to review and recommend changes. The Meat Industry Excellence (**MIE**) Group has contributed to this process. Their independent consultants GHD identified the current level of over-capacity in the processing industry at almost 100%, namely 53% for unused sheep processing capacity and 41% for unused beef processing capacity. The GHD report claimed the current structural issues cost New Zealand farmers $440-450 million in inefficiencies every year. The sheep industry has permanently lost more than one million head per year over the past 20 years. Beef and cattle numbers have decreased by around 500,000 head in the past decade and now number around 4 million.

3.3 Global Markets for New Zealand Meat Products

As a significant exporter of red meat products to international markets, New Zealand's success is determined by a wide range of trade barriers including tariff and non-tariff barriers put in place in overseas markets. Many of New Zealand's traditional trading partners seek to protect in some way their politically important domestic agricultural sector. New Zealand has long championed increased international trade through removal of trade barriers.

Free Trade Agreements

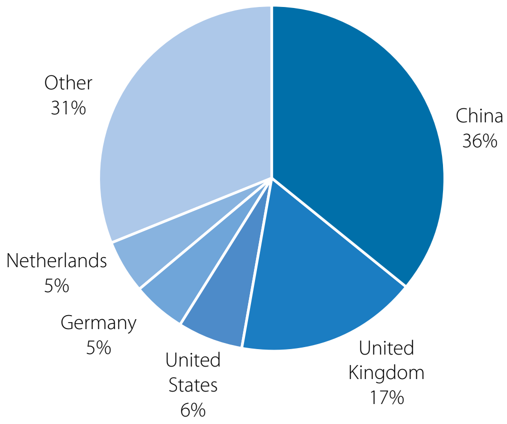
New Zealand has a number of FTA agreements in place as follows:-

New Zealand's Current Free Trade Agreements		
Country	**Agreement**	**Date**
Australia	Closer Economic Relationship	1963
Singapore	Closer Economic Relationship	2001
Thailand	Closer Economic Relationship	2005
China	New Zealand/China Free Trade Agreement	2008
ASEAN and Australia	ASEAN, Australia and New Zealand Free Trade Agreement	2010
Malaysia	New Zealand/Malaysia Free Trade Agreement	2010
Hong Kong	Closer Economic Partnership	2011

Major Trading Partners

The European Union, China and North America are New Zealand's three largest export destinations for red meat. Europe has traditionally been New Zealand's strongest trade partner for sheep exports, however, China is currently the largest overall importer of New Zealand sheep meat by volume and has steadily increased its consumption over the past 5 years. By volume, the European Union and China together accounted for over two thirds of sheep meat exports. Although China is the largest importer of sheep meat by volume, the average receipts per tonne are well below that achieved by receipts from the European Union, reflecting the different product mixes exported to the two regions.

New Zealand Sheep Meat Export Markets
12 Months to Sep 2016



Source: NZ Meat Industry Association

Trade Barriers

New Zealand exports more than 80% of its beef and over 90% of it sheep meat production. Easy access to key export markets is therefore critical to the success of the industry. Many countries continue to charge tariffs on agricultural products exported from New Zealand, and in 2014 alone, tariffs on sheep and beef cost the country more than NZ$300 million. New Zealand producers not only have to contend with demand and supply factors for their products, they also compete with offshore producers lobbying their Governments to provide them with protection against New Zealand's "low cost" products.

As a result of the Uruguay round of negotiations for the General Agreement on Tariffs and Trade, New Zealand obtained country specific tariff quota access to the European Union, United States and Canada.

New Zealand Country Specific Tariff Quotas	
Importing Country	**Tariff Quota**
European Union	Export 228,254 tonnes of sheep meat with zero tariff and 1,300 tonnes of "high quality beef" at a 20% tariff rate.
United States	Export 213,402 tonnes of beef and veal at a preferential rate of US4.4cents/kg
Canada	Export 29,600 tonnes of beef and veal with zero tariff.

During the past six months, further trade and foreign exchange uncertainty has emerged. Key risks include:

- The Brexit vote, whereby the majority have chosen for the UK to exit the European Union (**EU**). This exit process could take several years to complete.
- The EU and NZ have agreed to enter into FTA negotiations starting in early 2017.
- The USA election of Donald Trump as President, on a platform of protectionism.
- The likelihood that the Trans Pacific Partnership may be abandoned due to opposition from the USA following the election Donald Trump.

3.4 Industry Outlook [2]

Livestock Numbers

Key recent trends in livestock numbers include:

- Sheep numbers: 28.3 million as at 30 June 2016, down 3.0% on the prior year as a result of dry summer conditions, a shift to beef production and culling of older ewes.
- Beef cattle numbers: 3.65 million as at 30 June 2016, up 2.8% on the prior year as a result of strong beef prices relative to sheep meat.

Lamb

Lamb slaughter for the 12-month period ending 30 September 2017 is forecast to fall 1.8% to 19.5 million, reflecting a lower lamb yield for the season and also lamb retention by farmers.

Receipts from lamb exports for the 2016-17 season are forecast to exceed $2.5 billion (free on board), down 0.4% on the prior year. This decrease can be attributed to a reduction in the volume of lamb shipments. The average lamb price for the season is estimated at $4.85 per kilogram, which has been negatively impacted by the reduction in the value of the British Pound following the Brexit referendum.

Beef

Cattle slaughter for the 12-month period ending 30 September 2017 is forecast to fall 1.5% to 2.45 million, reflecting the continued effects of the high dairy cow slaughter in the 2014 – 15 season.

Receipts from beef and veal exports for the 2016-17 season are forecast to total $3.4 billion (free on board), up 2.3% on the prior year. This increase can be attributed to both an increase in the volume of beef shipments and also improved export prices. The average beef price for the season is estimated at $4.67 per kilogram.

[2] Source: NZ Beef and Lamb: New Season Outlook 2016-17.

4. PROFILE OF BLUE SKY

4.1 Background and History

Blue Sky was formed in 1987 by a small group of Southland shareholders, including former Chairman Graham Clooney. The Company was established with a focus on adding value through processing of fresh, high quality consumer-ready sheep and lamb products and received significant support from local South Island farmers.

Blue Sky operates two processing plants, an ovine processing plant located near Invercargill (the **Morton Mains Plant)** and a recently acquired bovine processing plant located in Gore (the **Gore Plant**). Over the past 30 years the Company has grown its shareholder and supplier base and has continued to reinvest in the business to expand its processing capability and product offering.

Blue Sky was the subject of a full takeover offer by Lowe Corporation in 2002 which was ultimately unsuccessful. Lowe Corporation also sought to increase its holding in Blue Sky in 2014 via a conditional agreement to acquire the Blue Sky shares held by H.W. Richardson Group for $1.71 per share. This transaction did not receive Board approval and did not proceed.

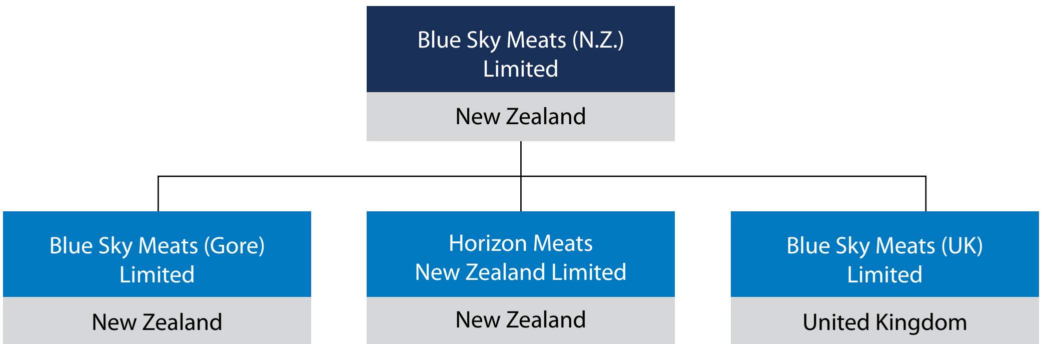
In 2014 Blue Star acquired an 11.25% stake in Blue Sky at $1.84 per share through an off-market purchase of shares held by Danish company DAT-Schaub Group.

Key events in Blue Sky's history are summarised below.

1987	→	Blue Sky established.
1998	→	Completion of a new boning room.
2001	→	Formation of Blue Sky Meats (UK) Limited to market products to EU countries.
2002	→	Unsuccessful takeover offer by Lowe Corporation.
2003	→	Horizon Meats New Zealand Limited acquired by Blue Sky.
2009	→	Completion of a new rendering plant at Morton Mains.
2011	→	Completion of a new skin salting facility at Morton Mains.
2014	→	Blue Star Corporation purchases 11% Blue Sky stake from DAT-Schaub Group.
2014	→	Acquisition of Clover Export Limited – Gore Plant.
2015	→	Completion of a chilled meat facility at Morton Mains.
2016	→	Board initiates sale process seeking offers for the Company.
2016	→	NZ Binxi launches full takeover offer.

4.2 Ownership and Capital Structure

Parent company Blue Sky Meats (N.Z.) Limited has three wholly-owned subsidiaries, two of which are located in New Zealand, and one of which is located in the UK as shown below.



Blue Sky has a straightforward equity capital structure comprising a single class of 11,526,098 ordinary shares held by a total of 372 shareholders. The top ten shareholders of Blue Sky are shown in the table below:

Blue Sky - Top Ten Shareholders (21 November 2016)		
Shareholder	**No. of Shares**	**%**
Lowe Corporation	2,068,374	*17.95%*
H.W. Richardson Group Ltd	1,663,300	*14.43%*
NZ Binxi (Oamaru) Foods Ltd	1,559,422	*13.53%*
Blue Star Corporation Ltd	1,296,748	*11.25%*
N & E Thwaites	116,302	*1.01%*
B & S Thomas as Trustees	116,000	*1.01%*
G.C. Ward & Co	113,376	*0.98%*
G & J Cooney as Trustees	100,000	*0.87%*
Houlker & Monk as Trustees	100,000	*0.87%*
Drivers Road Trust Company Ltd	70,588	*0.61%*
Subtotal	**7,204,110**	*62.50%*
Other (362 shareholders)	4,321,988	*37.50%*
Total	**11,526,098**	*100.00%*

There are currently four substantial shareholders of Blue Sky comprising Lowe Corporation (17.95%), H.W Richardson Group (14.43%), NZ Binxi (13.53%) and Blue Star (11.25%).

The shareholders of Blue Sky comprise a mix of “supplier shareholders” (those shareholders who also supply livestock to the Company) and “dry shareholders” who do not supply any livestock to the Company. Blue Sky estimates that around 85 shareholders are current suppliers to the Company, and these suppliers hold approximately 14% of the total shares on issue.

Blue Sky’s shares are not traded on a registered stock exchange. However, the Company is a member of the Unlisted trading platform. Further information on trading in Blue Sky shares is provided in Section 4.8.

4.3 Board of Directors/Management

The Blue Sky Board currently comprises three Directors, as summarised below:

Director	Position	Date of Appointment
Scott O'Donnell	Non-executive Chairman	2011
Andrew Lowe	Non-executive Director	2014
Peter Carnahan	Non-executive Director	1996

Prior to October 2016 the Board comprised six Directors. However, three of those Directors were disqualified from acting as directors because they exceeded the retirement age-limit in the Company's constitution. The disqualified Directors included founder and former Chairman Graham Cooney. Interests associated with Mr Cooney have subsequently sold 1,000,000 of their 1,100,000 shares in Blue Sky to NZ Binxi.

Chairman Scott O'Donnell is a Director of H.W. Richardson Group and represents its interests on the Board of Blue Sky. Andrew Lowe is a Director of Lowe Corporation and represents its interests on the Board of Blue Sky. Peter Carnahan is the sole independent Director.

Blue Sky has an experienced senior management team led by CEO Todd Grave. Mr Grave was appointed to the role in September 2016. The senior management team of Blue Sky is summarised in the table below.

Executive	Position
T Grave	Chief Executive Officer
C Brown	Marketing Manager
B Wells	Morton Mains Manager Slaughter / Technical
B Jenkins	Morton Mains Manager Further Processing / HR
M Ferguson	Environmental Manager
C Cowan	Gore Operations Manager
G Tippett	Engineering Manager
M Sloan	Administration Manager
R Cavanagh	Procurement Manager

4.4 Business Model and Operations

Blue Sky's business model is focused on producing quality lamb, beef and venison products for export to key international markets in the UK, Europe and Asia/Pacific regions. The Company's key activities include livestock procurement, processing, marketing and distribution of lamb, beef and venison products.

Source: BDO

Blue Sky employs around 390 people across its two processing sites and a further 3 staff at its Horizon Meats NZ subsidiary in Auckland.

Key drivers of the current Blue Sky business model include:

- Seasonal weather conditions.
- Access to livestock supply including contracted supply.
- Seasonal livestock pricing.
- Plant utilisation rates (which are primarily a function of the timing and quantum of livestock supply).
- EU/USA meat quotas, export demand, domestic demand and market prices.
- Export market foreign exchange rates against the NZ Dollar.

Livestock Procurement

Blue Sky was the first meat processor in the New Zealand Industry to offer its livestock suppliers a contracted commitment to killing space, a feature of the Company that has been maintained through to the present day. Livestock is sourced from farms predominantly located in the Southland and Otago regions.

Blue Sky currently contracts around 70% of its livestock on an annual basis. Contracts cover the period late November to early June and allow production planning and the ability to identify likely gaps early in the season. Blue Sky has recently increased its procurement staffing levels, which has assisted the Company in securing increased contracted livestock for the upcoming 2016/17 season.

Processing

Blue Sky operates two processing plants, the ovine plant at Morton Mains and the bovine plant in Gore. Operations are highly seasonal with the peak processing period running from December to May each year.

Morton Mains Plant

The Morton Mains Plant is located on the outskirts of Invercargill on 130 hectares of freehold land owned by the Company. The site includes covered yards, a slaughtering house, boning and cutting rooms, blast freezers, chiller rooms, a rendering plant and a skin salting facility. The Plant has a processing capacity of 30,000 stock units per week on a single chain equivalent basis, equating to around 1.3 million sheep per annum. Current processing rates (2015/16 season) are approximately 0.69 million sheep per annum.

The Morton Mains Plant is licenced to sell into most overseas markets including the USA, EU and China. The Plant is Ministry of Primary certified, HACCP accredited and EU and USDA approved. It also holds European accreditation from the British Retail Consortium (**BRC**).

Gore Plant

The Gore Plant is located on 6.0222 hectares of land leased from the Gore District Council. The site includes a slaughter house, boning room, tripe room, blast freezers and chiller facilities. The Plant is capable of processing approximately 140 cattle per day (equivalent to around 35,000 cattle p.a.). Current processing rates (2015/16 season) are approximately 7,300 cattle per annum. In addition, the Plant also processes small volumes of horse and deer and has the ability to process venison.

The Gore Plant is licenced to sell into key overseas markets including the USA and EU and is currently seeking approval to export to China. The Plant is MPI certified, HACCP accredited and EU and USDA approved. It also holds European accreditation from the BRC.

Marketing and Distribution

Blue Sky markets its products internationally through its wholly owned subsidiary Horizon Meats New Zealand Ltd (**Horizon Meats**) based in Auckland. Products into the UK market are sold by Horizon Meats via another wholly-owned subsidiary Blue Sky Meats (UK) Limited. The Company's products are sold under the Horizon and Star Brands.

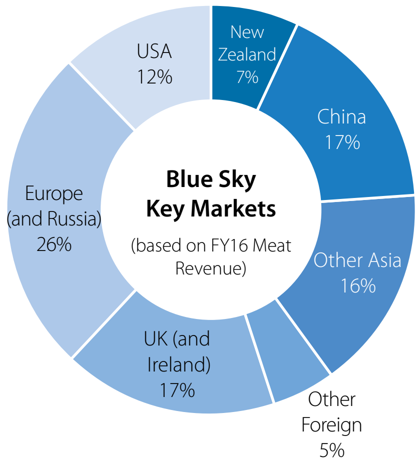
Blue Sky received a 2016 sheep and goat quota allocation of 6,307.9 tonnes into the EU and a 2016 beef and veal quota allocation of 437 tonnes into the USA. The Company does not expect to fully utilise either of these quota allocations.

4.5 Key Markets

Blue Sky derives the majority of its revenue from exports with the balance sold into the domestic market.

FY16 meat sales indicate that Europe (including Russia), was the largest market for the Company generating 26% of annual meat revenues. Other major meat export markets are China, the UK (including Ireland) and the USA.

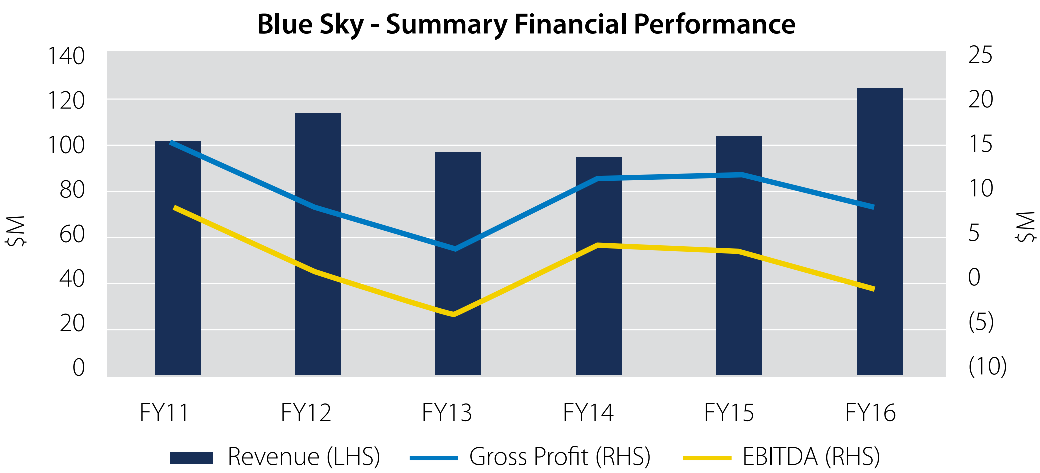
Blue Sky has actively sought to diversify its export market base to reduce specific country risk (e.g. anti-competitive/ regulatory changes) and foreign exchange rate risk.



4.6 Summary Financial Information

Historical Financial Performance

Blue Sky's revenue and profitability has exhibited significant volatility over the FY11 – FY16 period. This volatility is primarily driven by fluctuations in a range of industry drivers, including livestock supply, livestock pricing and international meat demand/pricing.



The reduction in Blue Sky's revenue from $114 million in FY12 to $97 million in FY13 can be largely attributed to a fall in export prices. In order to remain competitive, Blue Sky did not pass this price reduction on to farmers (via lower livestock prices), and instead, absorbed these losses, which resulted in a lower gross margin and a significant operating loss in FY13. The international sheep market subsequently stabilised in FY14 and FY15, leading to improved gross margins on stable revenues.

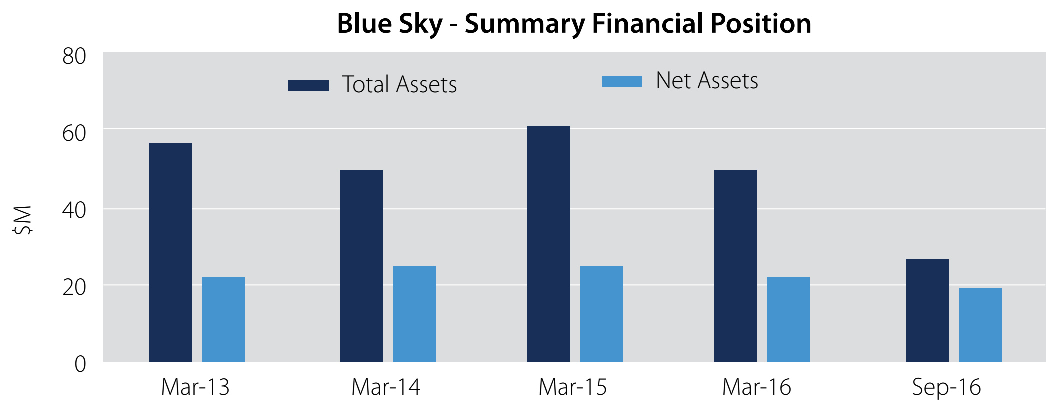
FY16 revenue growth was driven by an increase in annual processing volumes, and also an increase in higher value product sales (e.g. chilled product). However, these gains were off-set by an increase in procurements costs. Furthermore, Blue Sky's bovine operation incurred significant operating losses in FY16 as a result of a planned capital expansion programme which coincided with a spike in beef processing throughout New Zealand.

A summary of Blue Sky's audited financial performance over the four-year period ending 31 March 2016 is set out below.

Blue Sky Meats - Summary Financial Performance				
Shareholder	**12 mths**	**12 mths**	**12 mths**	**12 mths**
NZ$000's	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Revenue	97,433	95,281	102,133	123,975
Cost of Goods Sold	(93,666)	(83,901)	(90,443)	(115,745)
Gross Profit	**3,766**	**11,380**	**11,690**	**8,230**
Gross Margin	*3.9%*	*11.9%*	*11.4%*	*6.6%*
Other Income	-	4	3	1
Operating Expenses	(7,250)	(7,371)	(8,539)	(9,133)
EBITDA	**(3,484)**	**4,013**	**3,154**	**(902)**
EBITDA Margin	*-3.6%*	*4.2%*	*3.1%*	*-0.7%*
Depreciation	(1,183)	(1,022)	(1,009)	(1,168)
EBIT	**(4,667)**	**2,991**	**2,144**	**(2,070)**
Net Interest	(643)	(261)	(407)	(640)
Net Profit Before Tax	**(5,309)**	**2,729**	**1,738**	**(2,710)**

Historical Financial Position

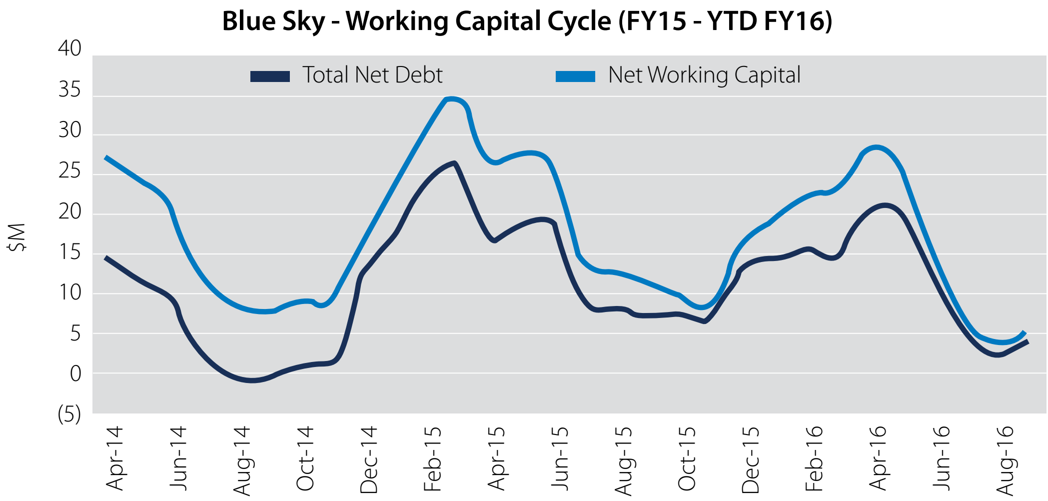
Blue Sky has historically maintained a relatively stable net asset base on an annualised basis, largely comprising debtors, inventory and plant and equipment.



A summary of Blue Sky's audited financial position over the four-year period ending 31 March 2016 is set out below, together with the Company's unaudited financial position as at 30 September 2016.

Blue Sky Meats - Summary Financial Position					
Shareholder	**12 mths**	**12 mths**	**12 mths**	**12 mths**	**6 mths**
NZ$000's	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Sep-16**
Current Assets					
Cash and Equivalents	-	-	-	17	320
Accounts Receivable	16,518	17,343	20,188	16,110	2,240
Inventory	16,503	17,450	22,641	14,040	4,797
Livestock	1,618	859	410	489	-
Derivative Instruments	572	742	390	1,490	-
Other	0	160	92	0	1,697
	35,211	36,554	43,721	32,146	9,054
Non-Current Assets					
Property Plant and Equipment	11,907	11,480	13,606	14,297	14,044
Goodwill	1,357	1,357	3,222	3,222	3,222
Other	1,116	267	6	229	6
	14,380	13,104	16,833	17,747	17,272
Current Liabilities					
Bank Overdraft	447	199	353	-	-
Accounts Payable and Accruals	8,752	10,452	9,994	9,148	2,531
Income Received in Advance	276	431	176	433	124
Borrowings	18,533	14,871	26,007	17,269	2,850
Taxation Payable	-	0	0	-	-
	28,007	25,953	36,531	26,849	5,505
Non-Current Liabilities					
Borrowings	-	-	12	1,524	1,890
Deferred Tax	-	-	370	-	-
	-	-	381	1,524	1,890
Net Assets	**21,584**	**23,706**	**23,642**	**21,520**	**18,931**

The seasonal nature of the meat processing industry is such that Blue Sky's working capital and net debt position fluctuates significantly throughout the financial year, as summarised below. This seasonality largely reflects the uplift in lamb volumes over the summer period. Blue Sky's financial position as at 30 September 2016 reflects a low-point in the annual production cycle.



The Company has a range of overdraft, term debt and seasonal debt facilities with Westpac in order to fund working capital fluctuations throughout the production cycle. A reduction in Company debt as at 31 March 2016 (relative to prior periods) was a result of lower than usual working capital requirements. Blue Sky is currently reviewing its bank funding requirements for the 2016 / 2017 processing season based on anticipated schedule prices and other known revenue and cost drivers.

Historical Cash Flows

A summary of Blue Sky's audited cash flows over the four-year period ending 31 March 2016 is set out below.

Blue Sky Meats - Summary Cash Flows				
Shareholder	**12 mths**	**12 mths**	**12 mths**	**12 mths**
NZ$000's	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Cash from Operating Activities	7,897	4,503	(5,270)	10,031
Cash from Investing Activities	(648)	(598)	(4,855)	(1,859)
Cash from Financing Activities	(6,909)	(3,657)	9,971	(7,802)
Net increase / (decrease) in cash	**341**	**248**	**(154)**	**370**

Blue Sky's operating cash flows fluctuate significantly year-to-year depending on movements in the Company's working capital position. Despite recording an operating loss in both FY13 and FY16, the Company generated positive operating cash flows as a result of a significant reduction in working capital. Conversely, Blue Sky recorded an operating profit in FY15, yet operating cash flows were negative, driven by a short-term increase in working capital. Variations in working capital are funded via the Company's seasonal bank debt facilities.

As set out in Section 4.1, Blue Sky acquired the bovine processing business of Clover Export Limited for approximately $3.1 million in FY15, resulting in a significant increase in cash outflows from investing activities. Furthermore, Blue Sky has recently completed a planned capital expansion programme at both of its processing plants.

Projected Financial Performance - FY17 and FY18

Due to a range of industry factors, including seasonality in procurement of livestock, changes in international demand and price, changes in foreign exchange rates, weather and other factors, it is difficult to accurately forecast Blue Sky's long-term financial performance. Management does not therefore prepare long-term financial projections for the Company.

A summary of Blue Sky's revised annual budget for FY17 (taking into consideration YTD performance as at 30 September 2016) and also the Company's draft FY18 budget is set out below.

Blue Sky Meats – Revised FY17 and Draft FY18 Budget		
NZ$000's	**Revised FY17**	**Draft FY18**
Revenue	105,006	107,432
Cost of Goods Sold	(93,069)	(94,700)
Gross Profit	**11,937**	**12,732**
Gross Margin	*11.4%*	*11.9%*
Operating Expenses	(9,129)	(9,355)
EBITDA	**2,808**	**3,377**
EBITDA Margin	*2.7%*	*3.1%*

<u>*Principle Assumptions*</u>

The principle assumptions relating to Blue Sky's projected FY17 and FY18 financial performance are summarised below.

Blue Sky is projecting a 15% reduction in revenue in FY17 (i.e. $105 million in FY17 compared to $124 million in FY16). This decrease can be attributed to a combination of lower processing volumes and also lower international meat prices. However, improved plant efficiencies are expected to result in a significant improvement in profitability (relative to FY16).

Difficult conditions in the beef processing sector will continue to negatively impact the financial performance of Blue Sky's bovine operation in Gore (in both FY17 and FY18).

The Company's draft FY18 budget shows a small increase in revenue to $107 million, and an increase in gross margin and EBITDA. The projected increase in FY18 profitability can be attributed to:

- An increase in chilled product sales.
- Improved procurement processes / management of procurement costs.
- Lower processing costs.
- Lower plant overheads.
- Identified freight savings.
- A reduction in external consultant costs.

Normalised Financial Performance

Blue Sky's historical and projected financial performance has been normalised to reflect abnormal/non-recurring items. Key normalisations include foreign exchange adjustments and also the operating losses attributable the Company's bovine operation.

Blue Sky Meats – Normalised Financial Performance					
	Actual	Actual	Actual	Budget	Budget
NZ$000's	FY14	FY15	FY16	FY17	FY18
Reported EBITDA	4,013	3,154	(902)	2,808	3,377
Normalisations[1]	377	349	2,529	778	924
Normalised EBITDA	**4,390**	**3,502**	**1,627**	**3,586**	**4,301**

1. Normalisations in FY16, FY17 and FY18 primarily reflect the operating losses attributable to the Company's bovine operation under the assumption that these are not sustainable in the long-term.

4.7 Strategic Review Process

Following appointment of new CEO Todd Grave in September 2016 the Company has commenced a comprehensive review of its operations and potential for improvements to its operating and financial performance.

The strategic review (the **Strategic Review**) is a "work-in-progress" and is at an early stage. Preliminary analysis and modelling work had been undertaken by Company management in November, including input from line managers, senior managers and an external industry consultant. The preliminary output of the Strategic Review, as referred to in this Report, has been reviewed by the Board within the short timeframe imposed by NZ Binxi's Offer and the Board is comfortable with management's approach and supports in principle the preliminary analysis. Further additional work by management is required prior to finalisation of the Strategic Review. Therefore, the preliminary outputs of the Strategic Review contained in this Report are subject to change and Board approval and should be considered by shareholders on this basis. The Board and management intend to continue work on the Strategic Review, with a view to providing an update to shareholders in January 2017.

Details of the Strategic Review are commercially sensitive. However, they comprise a stream of operating and business initiatives that the Directors of Blue Sky believe will bring the Company into line with "industry standard practice/standard performance" as well as maximising revenues from marketing activities in existing and new target market segments over the three year period from FY18 to FY20. Each initiative has been assessed for its projected incremental contribution to EBIT following consideration by Blue Sky of the risks associated with implementation.

Key initiatives identified to date by the Strategic Review include:

- Marketing initiatives
- Processing improvements
- Slaughter board improvements
- Procurement

It is important to note that these improvements are incremental only and do not represent a three year forecast earnings for the Company. Notwithstanding this the modelling has identified targets for incremental gains to EBITDA of $2.48 million in FY18, a further $1.71 million in FY19 and a further $2.39 million in FY20 as summarised in the table below.

Blue Sky Strategic Review- Summary of Projected Incremental Benefits			
	Year 1	Year 2	Year 3
NZ$000's	FY18	FY19	FY20
Total Incremental EBITDA[1]	2,480	1,710	2,390

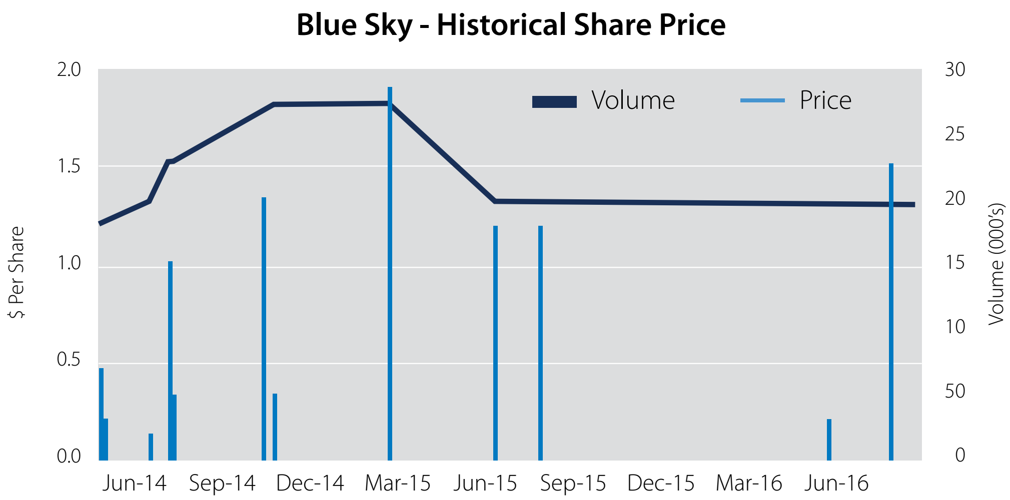
1. Excludes any incremental benefits from restructuring the Company's bovine operation.

The projected incremental gains in the Strategic Review are subject to a range of commercially sensitive inputs and assumptions and include analysis of all operational departments within the Company. These inputs include projected incremental revenue as well as additional operating expenses (such as staff) to drive each initiative. Projected incremental capital expenditure requirements and timing have also been assessed but are treated separately from EBITDA.

4.8 Share Price and Traded Volume

As set out above, Blue Sky's shares are not traded on a registered stock exchange (such as the NZX). However, the Company is a member of the Unlisted trading platform, which facilitates trades between willing buyers and sellers. Notwithstanding this, trading of Blue Sky shares is often completed "off-market".

Trading of Blue Sky shares is infrequent, with very little liquidity. The traded volume of Blue Sky shares over the 12-month period to 31 October 2016 (excluding related party trades and any shares acquired by NZ Binxi) totalled 32,500 shares, representing less than 1% of the total shares on issue. The most recent trade took place on 8 August 2016 at a price of $1.30 per share.



We note that the most recent trade of a substantial block of shares occurred in 2014 when Blue Star Corporation (Blue Star) acquired an 11.25% stake in Blue Sky at a price of $1.84 per share.

As set out in Section 2, during the period to 17 November 2016 NZ Binxi approached selected existing shareholders in Blue Sky and acquired a total of 1,559,422 shares (not included in the graph above). All shares were acquired at a price of $2.20 per share, the same price per share as specified in the Offer. A majority of the shares purchased by NZ Binxi to date were acquired from Graham and Jill Cooney (as trustees) who sold 1,000,000 Blue Sky shares to NZ Binxi on 16 November 2016.

5. VALUATION OF BLUE SKY

5.1 Valuation Basis and Methodology

Campbell MacPherson considers that the most appropriate valuation approach is to assess the value of Blue Sky on the basis of fair market value. 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 buyer and a knowledgeable, willing but not anxious seller, both acting at arm's length."

A range of valuation methodologies can be applied to determine fair market value, including:

- Discounted cash flow.
- Capitalisation of earnings/dividends.
- Net asset value/liquidation value.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the availability of information, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

A brief summary of potential valuation methodologies is outlined below.

Discounted Cash Flow Methodology

The Discounted Cash Flow (**DCF**) methodology estimates the value of a company based on the net present value (**NPV**) of its future free cash flows, recognising the time value of money and company specific risk factors. The DCF method requires management to prepare detailed, long-range cash flow projections for the business, together with an assessment of the cost of capital or "discount rate" that should be applied to determine the NPV of those cash flows. The NPV of a company's free cash flow represents the value of the business as a whole, prior to considering how the company is financed (commonly referred to as enterprise value or **EV**). Net debt and the value of any non-voting and/or preferential equity instruments is then deducted to determine the ordinary equity value of the business.

The EV of a company determined by the DCF method is usually calculated in a two-stage process which combines the NPV of expected future free cash flow over an explicit forecast period and a terminal value representing the NPV of free cash flow beyond that period. Valuations derived using the DCF method are often highly sensitive to the cost of capital and the terminal value.

Capitalisation of Earnings Methodology

The capitalisation of earnings methodology is an adaptation of the DCF methodology. It requires an assessment of the future sustainable earnings of the business and the selection of a capitalisation rate (or earnings multiple) appropriate for that particular business. This method is based on the principle that comparable companies engaged in similar business activities will have similar operating and financial risks and returns and can therefore be valued using a similar multiple of earnings.

The advantage of the capitalisation of earnings methodology over the DCF methodology is that earnings multiples can often be directly observed in the market. A multiple is often applied to earnings before interest, tax, depreciation and amortisation (**EBITDA**) or earnings before interest and tax (**EBIT**) in order to determine the enterprise value of the business. The capitalisation of earnings methodology is generally most appropriate for established companies with stable earnings.

Comparable multiples are generally derived using two key sources of information:

- Earnings multiples based on recent transactions of comparable companies.
- Earnings multiples based on the current share price of comparable listed companies.

Multiples derived from comparable transactions are often the most relevant when determining the fair market value of 100% of a company. However, this data is often confidential and can be difficult to obtain due to its commercial sensitivity. Earnings multiples calculated using the current share price of comparable listed companies are generally easier to obtain, but are typically less relevant as issues of size, liquidity and the implicit minority discount must be taken into consideration.

Capitalisation of Dividends Methodology

The capitalisation of dividends method is similar to the capitalisation of earnings approach and is generally used to value minority equity shareholdings. This method involves a direct determination of the equity value of a company using an assessment of its future maintainable dividends. The future maintainable dividends are capitalised using an appropriate dividend yield to determine the equity value per share. This method is often used in situations where minority share parcels of stable dividend paying companies are being valued.

Asset-based Methodologies

An asset based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them.

A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and/or there is some indication that an orderly realisation is contemplated.

5.2 Valuation Approach

Taking into consideration the available information on Blue Sky, we consider that the most appropriate method for assessing the value of the Company is the capitalisation of earnings methodology.

Due to a range of industry factors, including seasonality in procurement of livestock, changes in international demand and prices, changes in foreign exchange rates, weather and other factors, it is difficult to accurately forecast Blue Sky's long-term financial performance. On the basis that management does not prepare long-term projections for Blue Sky, the DCF methodology cannot be used to assess the value of the Company.

As set out above, the capitalisation of earnings methodology is generally most appropriate for established companies with stable earnings. Whilst Blue Sky is a well-established company, its historical earnings show high levels of volatility. To address this volatility, we have taken into consideration Blue Sky's earnings over a wide period when assessing the Company's future sustainable earnings. We have also given consideration to the preliminary outputs of the Strategic Review by the Company aimed at improving operational efficiency and profitability.

The results of our earnings based analysis have been cross-checked against the book value of Blue Sky's net tangible assets and also the market price of recent share trades.

5.3 Capitalisation of Earnings Valuation – Key Assumptions

Future Sustainable Earnings

EBITDA and EBIT are both commonly used as the basis for a company's future sustainable earnings (**FSE**) when undertaking a capitalisation of earnings valuation. In some circumstances EBIT can be a better measure of a company's earnings, as it allows for the relative capital intensity of the business (assuming depreciation is a reasonable proxy for capital expenditure). However, EBIT can be distorted by a company's depreciation policy and other non-cash adjustments. Campbell MacPherson has used EBITDA as the basis for Blue Sky's FSE.

Our assessment of Blue Sky's FSE is based on analysis of the Company's normalised historical and projected EBITDA, and also discussions with the Company's Board of Directors and management team in relation to the Company's business strategy and opportunities to improve performance.

- ***Historical financial Performance:*** As set out in Section 4.6, Blue Sky's historical revenue and profitability has exhibited significant volatility, reflecting a combination of company and industry specific factors.
- ***Projected financial performance (FY17 and FY18):*** As set out in Section 4.6, Blue Sky is projecting a significant improvement in profitability in FY17 and FY18, driven principally by improved plant efficiencies.
- ***Bovine Operation:*** Difficult conditions in the beef processing sector continue to negatively impact the financial performance of Blue Sky's bovine operation in Gore. For the purposes of assessing Blue Sky's long-term FSE, historical and projected losses attributable to the bovine operation have been normalised on the basis that these are not sustainable in the long-term
- ***Strategic Review:*** As discussed in Section 4.7, the preliminary outputs of the Strategic Review indicate potential for significant incremental EBITDA over the FY18 to FY20 period. Whilst we acknowledge these potential benefits, we are also cognisant of the risks around delivering a very substantial lift in future sustainable earnings of the Company over this period given the historical volatility in earnings and EBITDA margins and the impact of any incremental EBITDA on our assessed FSE when comparing it with EBITDA margins of other major industry players. Taking these factors into consideration we have included the shorter-term projected FY18 incremental EBITDA in our assessed FSE but have excluded the longer-term projected FY19 and FY20 incremental EBITDA.

Blue Sky Meats - Assessed Future Sustainable Earnings					
	Actual	**Actual**	**Actual**	**Budget**	**Budget**
NZ$000's	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Reported EBITDA	4,013	3,154	(902)	2,808	3,377
Normalisations[1]	377	349	2,529	778	924
Normalised EBITDA	**4,390**	**3,502**	**1,627**	**3,586**	**4,301**
Assessed Base FSE			**3,940**		
Incremental EBITDA in Y1 of Strategic Review			2,480		
Assessed FSE for Valuation			**6,420**		

1. Normalisations in FY16, FY17 and FY18 primarily reflect the operating losses attributable to the Company's bovine operation under the assumption that these are not sustainable in the long-term.

Having given due regard to a range of factors, Campbell MacPherson has assessed Blue Sky's future sustainable EBITDA to be $6.42 million for valuation purposes.

Earnings Multiple

As set out in Section 5.1, multiples derived from comparable transactions are often more relevant than comparable trading multiples when assessing the fair market value of 100% of a company.

Campbell MacPherson has reviewed a range of local and international transactions in the meat processing/meat products industry. Although some transactions are not directly comparable to Blue Sky, they provide a framework for determining an appropriate valuation multiple.

Transaction Multiples – New Zealand

Major transactions in the New Zealand meat processing industry include:

- PPCS' successful takeover of 100% of Richmond in 2004.
- Talley's acquisition of an additional 10.01% shareholding in AFFCO in 2006 (taking its total shareholding to 50.01%).
- Talley's successful takeover of 100% of AFFCO in 2010.
- Itoham Foods' acquisition of an additional 16.7% shareholding in ANZCO in 2015 (taking its total shareholding to 65%).
- Shanghai Maling's $261 million investment in Silver Fern Farms, representing a 50% shareholding (approved by shareholders but not yet completed).

Although each of these companies are considerably larger than Blue Sky, they are exposed to the same industry, economic, political, environmental and regulatory factors, and are therefore considered comparable for valuation purposes.

In addition to the transactions listed above, we have also taken into consideration two recent Blue Sky share transactions in assessing an appropriate valuation multiple.

- In January 2014, Lowe Corporation entered into a conditional agreement to acquire an additional 14.4% shareholding in Blue Sky from H.W Richardson Group at a price of $1.71 per share (taking its total shareholding to 32.4%). This transaction was not approved by the Board and was therefore not able to be completed. However, we note that there was both a willing buyer and a willing seller at this price.
- In April 2014, Blue Star Corporation acquired an 11.25% shareholding in Blue Sky at a price of $1.84 per share.

We note that, these Blue Sky transactions are unlikely to include a premium for control given the acquirer's shareholding post transaction would have been less than 50%.

As summarised below, the historical EBITDA multiples implied by these comparable transactions range from 5.2x to 14.2x, with an average of 7.3x. The historical EBITDA multiple implied by the ANZCO transaction is significantly higher than other comparable transactions, and has therefore been treated as an outlier for the purposes of our analysis. Excluding the ANZCO transaction the historical EBITDA multiples implied by these comparable transactions range from 5.2x to 7.2x, with an average of 6.2x.

New Zealand Transaction Multiples - Meat Processing / Meat Products					
				Historical	
		Date	Implied	Implied	Implied
Target	**Acquirer**	**Announced**	**EV ($M)**	**EV/EBIT**	**EV/EBITDA**
Silver Fern Farms[1]	Shanghai Maling	Sep-2015	503	7.3	5.2
ANZCO	Itoham Foods	Feb-2015	424	23.2	14.2
AFFCO	Talley's Group	Jun-2010	267	10.0	6.6
AFFCO	Talley's Group	Mar-2006	283	10.5	7.2
Richmond	PPCS	Jun-2004	285	n/a	5.6
Blue Sky Transactions					
Blue Sky Meats[2,3]	Blue Star Corp	Apr-2014	26	8.5	6.4
Blue Sky Meats[2,3,4]	Lowe Corp	Jan-2014	24	8.0	6.0
Average			**352**	**11.3**	**7.3**
Median			**285**	**9.2**	**6.4**
Average (excl ANZCO)			**335**	**8.9**	**6.2**
Median (excl ANZCO)			**284**	**8.5**	**6.2**

1. Silver Fern Farm's transaction multiples are based on forecast earnings for the 12-month period ending 30 September 2015.
2. Blue Sky's transaction multiples are based on actual earnings for the 12-month period ending 31 March 2014.
3. Blue Sky's implied enterprise value has been estimated based on the Company's seasonally adjusted net debt position as at March 2014.
4. This transaction was not approved by the Board and was therefore not able to be completed.
5. Source: Capital IQ and publicly available data.

Transaction Multiples – International

For comparative purposes Campbell MacPherson has also reviewed a range of international transactions in the meat processing industry. However, limited reliance has been placed on these transaction multiples on the basis that transaction multiples observed in New Zealand are often lower than those observed in international markets. This can be attributed to a range of factors, including size and earnings diversification. Furthermore, political, regulatory and economic factors must be taken into consideration.

Trading Multiples - Meat Processing / Meat Products	
Sample Size	13
Average Enterprise Value ($M)	2,447
Median Enterprise Value ($M)	1,795
Average Historic EV/EBITDA multiple	7.5
Median Historic EV/EBITDA multiple	7.7
Average Historic EV/EBIT multiple	16.2
Median Historic EV/EBIT multiple	14.8

Source: Capital IQ

Trading Multiples

Campbell MacPherson has also considered trading multiples for listed companies in the meat processing/meat products industry (as summarised below). However, it is important to note that trading multiples are calculated based on a company's traded share price, and therefore, do not include a premium for control. Shares typically trade at a discount to the underlying value of the company, reflecting the lack of control inherent in a minority position. While these companies are not directly comparable to Blue Sky, they provide a framework for determining an appropriate valuation multiple. There are no comparable meat processing companies listed on the NZX.

Trading Multiples - Meat Processing / Meat Products					
		Historical		Forward	
Company	Market Cap ($M)	EV/EBIT	EV/EBITDA	EV/EBIT	EV/EBITDA
International					
Hilton Food Group	763	14.4	8.7	12.9	8.0
HKScan	244	23.1	4.9	14.6	4.1
Hormel Foods	26,843	14.7	13.3	13.3	12.2
JBS	11,596	12.2	7.2	7.5	5.2
Marfrig Global Foods	1,350	9.6	7.1	9.0	6.8
Minerva	1,080	6.1	5.7	6.5	5.7
Tyson Foods	36,689	10.5	8.5	10.3	8.4
WH Group	17,178	8.8	7.2	8.5	7.0
Wellard Group	92	12.8	6.6	24.9	7.8
Average	**8,849**	**12.5**	**7.7**	**11.9**	**7.3**
Median	**1,215**	**12.2**	**7.2**	**10.3**	**7.0**

Source: Capital IQ

Assessed Multiple Range

In selecting an EV/EBITDA multiple to apply to Blue Sky's future sustainable earnings, Campbell MacPherson has taken into consideration a number of factors including:

- Comparable transaction and trading multiples in the meat processing / meat products industry.
- The recent Blue Sky share transactions involving Lowe Corporation (not completed) and Blue Star Corporation (completed).
- Key characteristics of the New Zealand meat processing sector:
  - A mature, seasonal and highly competitive industry.
  - Declining livestock numbers.
  - Surplus processing capacity.
  - Potential for further industry consolidation.
- Economic conditions in New Zealand.
- Blue Sky's status as a relatively small meat processor and the attractiveness of Blue Sky as a takeover/ merger target.
- Blue Sky's financial and operational track record and the preliminary outputs from the Strategic Review.

Having given due regard to all of these factors, Campbell MacPherson has applied an EV/EBITDA multiple of 6.25x to 6.75x to determine the fair market value of Blue Sky.

Net Debt for Valuation Purposes

In order to calculate the equity value of Blue Sky, Campbell MacPherson has deducted net debt of $14.4 million from our assessed enterprise value.

Our assessed net debt for valuation purposes is based on the Company's reported financial position as at 30 September 2016, adjusted to reflect Blue Sky's average working capital position over the 12 month period ending 31 March 2017.

Blue Sky Meats - Assessed Net Debt for Valuation Purposes	
NZ$000's	
Term Debt (Net of Cash) as at 30 September 2016	1,600
Plus Seasonal Funding Adjustment	12,800
Net Debt for Valuation Purposes	**14,400**

Additional Capital Expenditure – Strategic Review

In accordance with the preliminary results of the Company's Strategic Review, Blue Sky management estimate that approximately $3.5 million of capital expenditure is required (over and above the Company's existing capital expenditure requirements) to achieve the projected incremental earnings in FY18. Our assessed Enterprise Value does not reflect the additional capital expenditure and investment required to implement the Company's Strategic Review. We have therefore deducted $3.5 million from our assessed Enterprise Value for the purposes of this valuation.

Surplus Assets

Campbell MacPherson has been advised by the Blue Sky Directors that the Company does not own any assets which are deemed to be surplus assets for valuation purposes.

5.4 Assessed Value of Blue Sky – Capitalisation of Earnings Methodology

Based on the capitalisation of earnings methodology and the assumptions set out above, Campbell MacPherson has assessed the Enterprise Value of Blue Sky to be in the range of $40.1 million to $43.3 million.

After deducting net debt and the additional capital expenditure required to implement the Strategic Plan in year 1 (FY18), Campbell MacPherson's assessed value of Blue Sky's ordinary equity is in the range of $22.2 million to $25.4 million or **$1.93 to $2.21 per share.**

Blue Sky Meats - Capitalisation of Earnings Valuation		
	Value Range	
	Low	High
Future Sustainable EBITDA	6,420	6,420
EBITDA Multiple	6.25	6.75
Assessed Enterprise Value	**40,125**	**43,335**
Less Term Debt (Net of Cash) as at 30 September 2016	(1,600)	(1,600)
Less Seasonal Funding Adjustment	(12,800)	(12,800)
Less Additional Capital Expenditure	(3,515)	(3,515)
Assessed Equity Value	**22,210**	**25,420**
Shares Outstanding (000's)	11,526	11,526
Assessed Value per Share ($)	**1.93**	**2.21**

Our assessed value range is inclusive of a premium for control and therefore reflects the value of 100% of the Company. In the absence of a takeover offer for 100% of the Company, we would not expect Blue Sky's traded share price to reflect this valuation. Shares of listed companies typically trade at a discount to the underlying value of the company, reflecting the lack of control inherent in a minority position.

5.5 Valuation Cross-Check – Net Tangible Asset Methodology

The results of our earnings based valuation have been cross-checked against the Company's net tangible asset backing. The value of a company's net tangible assets is often used to set a lower limit on the value of a company, as businesses are seldom sold for below the value of their net tangible assets, unless they are under operating or financial distress. However, given the specialist nature of Blue Sky's fixed asset base, the market value of the Company's net tangible assets may be less than book value, particularly given the surplus meat processing capacity in New Zealand at present.

Campbell MacPherson has assessed the value Blue Sky's net tangible assets based on actual book values as at 30 September 2016 and also projected book values as at 31 March 2017 (as per the Company's revised FY17 budget).

Blue Sky - Net Tangible Assets		
	Actual	Projected
NZ$000's	Sep-16	Mar-17
Reported Net Assets	18,931	22,809
Less Intangible Assets	(3,222)	(3,222)
Goodwill	(1,490)	-
Deferred Tax Asset	(4,711)	(3,222)
Net Tangible Assets	**14,220**	**19,588**
Shares Outstanding (000's)	11,526	11,526
NTA Per Share ($)	**1.23**	**1.70**

As summarised above, the book value of Blue Sky's net tangible assets ranges from $14.2 million as at 30 September 2016 (actual) to $19.6 million as at 31 March 2017 (projected), which equates to $1.23 to $1.70 per share. The increase in Blue Sky's projected net tangible assets as at 31 March 2017 primarily reflects the projected profitability of the Company over that period.

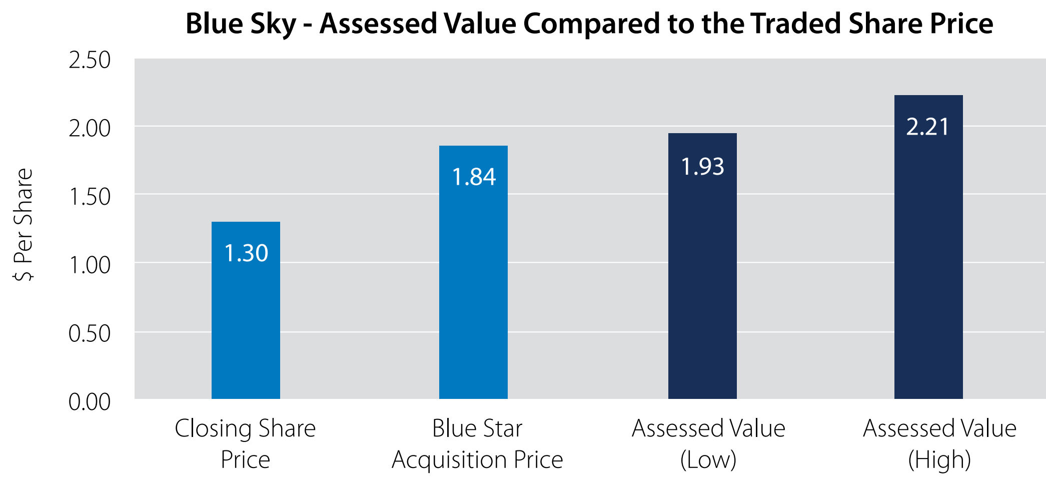
On the basis that Blue Sky's net tangible asset backing is less than our assessed equity value based on the Capitalisation of Earnings methodology, we have not considered the net tangible asset methodology any further. As set out above, the value of a company's net tangible assets is often used to set a lower limit on the value of a company.

5.6 Implied Premium to the Traded Share Price

Blue Sky's traded share price naturally incorporates a minority discount, reflecting the lack of control inherent in a minority shareholding. When 100% of a company is acquired, the purchaser will typically pay a premium to the traded share price, reflecting the full value of the company being acquired. Furthermore, in the case of Blue Sky, it is possible that the observed share price may not fully reflect the market value of the Company given its low level of liquidity.

Campbell MacPherson's assessed value of Blue Sky of $1.93 to $2.21 per Share represents a premium of 48% - 70% to the traded share price of $1.30 per share (most recent trade).

Campbell MacPherson's assessed value of Blue Sky of $1.93 to $2.21 per Share represents a premium of 5% - 20% to the price at which Blue Star Corporation acquired an 11.25% shareholding in Blue Sky in 2014 ($1.84 per share).



6. PROFILE OF NZ BINXI

6.1 Overview

NZ Binxi is a 100% owned subsidiary of Heilongjiang Binxi Cattle Industry Co Limited **(Binxi Cattle Group**) a registered company incorporated in Harbin City in the Heilongjiang province of China. The founder, principal shareholder and sole director is Mr He Zhiyun, who is a private individual and entrepreneur in the Chinese meat industry. Mr He first visited New Zealand in 2010 to study the local meat industry and farming practices.

In China the Binxi Cattle Group operates a vertically integrated beef business comprising modern meat processing plants, beef fattening feedlots, slaughter and processing, animal feed processing, organic fertilizer production and a chain of Binxi retail stores.

Binxi Cattle Group has the potential to slaughter over 200,000 beef cattle per year and currently produces over 160 different chilled beef products. In recent years, Binxi Cattle Group has further expanded and diversified its production base with the development of a state of the art pork processing plant capable of processing 2,400,000 pigs per year.

Binxi Cattle Group has a network of sales channels including wholesale, retail, high end restaurants and quick service sales channels. Through these channels, Binxi Cattle Group works with some of the world's most recognised Quick Service Restaurant brands. Binxi Cattle Group owns over 80 retail stores in Northern China with expansion plans underway for new stores in Beijing, Shanghai and Southern China.

6.2 New Zealand Assets

The development of Binxi Cattle Group's sales and distribution channels has more recently expanded the product portfolio to include the sale of New Zealand lamb from the Lean Meats Limited (**Lean Meats**) in Oamaru.

In October 2014 Binxi purchased 24.9% of Lean Meats and was subsequently granted approval by the OIO to move to 100% ownership in December 2015. In the Lean Meats acquisition Overseas Investment Act approval was required because the target owned 6.9 hectares of freehold land. The transaction satisfied criteria in Section 16 of the Act known as the substantial and identifiable benefit to New Zealand test (e.g. employment, increased export receipts, greater productivity, increased processing of primary products, etc).

Binxi has a plan for growth in its New Zealand business and has hired an experienced senior management team of New Zealanders to manage and govern their local operations.

6.3 NZ Binxi's New Zealand based Director

NZ Binxi's New Zealand resident Director is Mr Richard Thorp. Mr Thorp has been involved in the primary sector all of his working life and is from a rural background. He went on to hold executive roles in major food companies in New Zealand including the CEO of the former Lean Meats business based in Oamaru. Mr Thorp is the New Zealand resident director for the New Zealand based Binxi Cattle Group companies.

APPENDIX I. INFORMATION, DISCLAIMER AND INDEMNITY

I.a Sources of Information

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

- The draft Target Company Statement (version dated 30 November 2016).
- The NZ Binxi (Oamaru) Foods Limited takeover offer document dated 21 November 2016.
- Blue Sky's audited annual reports for the years ended 31 March 2014 – 2016.
- Financial Projections for Blue Sky through to 31 March 2018, approved for release by the Directors of the Company.
- Recent Blue Sky Board Reports.
- New Zealand Companies Office records.
- Various market announcements by Blue Sky via the Unlisted market.
- Publicly available information on Blue Sky and NZ Binxi.
- Capital IQ (share price data and company financials).
- Correspondence and / or discussions with the Directors and Senior Management of Blue Sky and the Company's legal advisers.
- A range of publicly available industry reports.
- A financial model and preliminary information relating to the Strategic Review.

During the course of preparing this Report, we have had discussions with and/or received information from the Directors who are not associated with the Offeror, executive management of Blue Sky and Blue Sky's legal advisers.

The Directors of Blue Sky have confirmed that we have been provided, for the purpose of this Report, with all information relevant to the Offer 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 necessary for the purpose of preparing this Report. In our opinion, the information set out in this Report is sufficient to enable the Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision.

I.b 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 Blue Sky 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 Blue Sky. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

I.c Disclaimer

We have prepared this Report with care and diligence and the statements in this Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this 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 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 Target Company Statement issued by Blue Sky and have not verified or approved the contents of the Target Company Statement. We do not accept any responsibility for the contents of the Target Company Statement except for this Report.

I.d Indemnity

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

II.a Qualifications

Campbell MacPherson Limited

Campbell MacPherson is a private New Zealand-owned investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations. Further information on Campbell MacPherson can be found on our website www.campbellmacpherson.com.

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Tony Haworth and Brad Caldwell. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

Alistair Ward *B.Com (Hons), M INST D, AFNZIM*

Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

Tony Haworth *M.Sc (Tech), M.Sc (Fin), M.AusIMM, MAICD*

Tony holds the position of Director at Campbell MacPherson Limited and has worked for the Company since 2004. He is a former General Manager of National Mining Company in Oman and a former Director of Liberty Gold Corporation in London. Prior to joining Campbell MacPherson, Tony completed a Masters in Finance at London Business School. Prior to working and studying overseas Tony held the position of geologist with Heritage Gold Limited.

Tony specialises in mergers and acquisitions, corporate valuation and financial analysis and has advised on a wide range of corporate finance transactions and assignments for public and private New Zealand companies and organisations across a variety of industry/public sectors.

Tony is a Member of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors.

Brad Caldwell *B.Com, M.Bus*

Brad joined Campbell MacPherson in 2010 and has worked on numerous corporate advisory assignments including mergers and acquisitions, capital raising and other projects. His expertise includes valuation, financial modelling and market/industry research.

Brad is a graduate of the University of Otago where he completed a Bachelor of Commerce, majoring in finance, followed by a Masters in Business, majoring in finance.

II.b Independence

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with Blue Sky or the Offeror that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Offer nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

II.c Declarations

Advance drafts of this Report were provided to the Blue Sky Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson. Our terms of reference for this engagement did not contain any term which materially restricted the scope of this Report.

II.d Consents

We consent to the issuing of this Report in the form and context in which it is to be included in the Target Company Statement to be sent to Blue Sky's shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

APPENDIX III. NZ MEAT PROCESSORS

1 MOEREWA

AFFCO Moerewa	ME47

2 DARGAVILLE

Silver Fern Farms Dargaville	ME125

3 AUCKLAND

Auckland Meat Processors	ME103

4 THAMES

Silver Fern Farms Thames	ME108

5 PAEROA

Silver Fern Farms Paeroa	ME75

6 TE AROHA

Silver Fern Farms Te Aroha	ME84

7 HAMILTON

AFFCO Horotiu	ME23
Greenlea Hamilton	ME124

8 MORRINSVILLE

Greenlea Morrinsville	ME82
Silver Fern Farms Waitoa	ME100

9 TE PUKE

AFFCO Rangiuru	ME56

10 TE KUITI

Te Kuiti Meat Processors	ME104
Universal Beef Packers	ME127

11 BENNEYDALE

Crusader Meats	ME118

12 GISBORNE

Ovation NZ Ltd Gisborne	ME130

13 WAIROA

AFFCO Wairoa	ME42
Silver Fern Farms Wairoa	ME83

14 STRATFORD

Taranaki Abattoir	AB18

14 ELTHAM

Riverlands Eltham	ME43

15 NAPIER

Fresh Meats	ME77

16 HAWERA

Silver Fern Farms Hawera	ME9

17 HASTINGS

Silver Fern Farms Pacific	ME52
Progressive Meats	ME87/PH71

18 WAITOTARA

Silver Fern Farms Waitotara	ME102

19 WHANGANUI

AFFCO Imlay	ME39
AFFCO Land Meats	ME131/PH185

20 FEILDING

AFFCO Manawatu	ME32
Ovation NZ Ltd Feilding	ME128

21 WAIPUKURAU

Ovation NZ Ltd	PH31

22 TAKAPAU

Silver Fern Farms Takapau	ME58

23 BULLS

Riverlands Manawatu	ME119
CMP Rangitikei	ME188

24 DANNEVIRKE

Alliance Dannevirke	ME134

25 LEVIN

Alliance Levin	ME136

26 MASTERTON

Kintyre Meats	AB78

27 WELLINGTON

Taylor Preston	ME86

28 NELSON

Alliance Nelson	ME40

29 BLENHEIM

CMP Marlborough	ME70

30 GREYMOUTH

CMP Kokiri	ME66

31 HOKITIKA

Silver Fern Farms Hokitika	PH206

32 BELFAST

Silver Fern Farms Belfast	ME15

33 TIMARU

Alliance Smithfield	ME17

34 PAREORA

Silver Fern Farms Pareora	ME34

35 OAMARU

Alliance Pukeuri	ME18
Lean Meats	ME137

36 CHRISTCHURCH

Alliance Sockburn	ME69
SPM Malvern	ME135
CMP Rakaia	ME500
Harris Meats	AB81
Canterbury Fresh	ME600

37 ASHBURTON

Silver Fern Farms Fairton	ME16
CMP Canterbury	ME78
Ashburton Meat Processors	AB32

38 DUNEDIN

ANZCO Green Island	PH173

39 MOSGIEL

Silver Fern Farms Silverstream	ME113

40 BALCLUTHA

Silver Fern Farms Finegand	M262

41 GORE

Silver Fern Farms Waitane	ME112
Clover Export	ME117

42 MATAURA

Alliance Mataura	ME21

43 INVERCARGILL

Alliance Lorneville	ME50
SPM Awarua	ME/SPM51
Blue Sky Meats	ME80
Prime Range Meats	ME132

Source: Red Meat Industry:
Pathways to Long-Term Sustainability, March 2015.