Northington Partners

Lateral Corporation Limited

Prepared Pursuant to Rule 18 of the New Zealand Takeovers Code in Relation to Proposed Allotments of Shares

August 2016

Statement of Independence

Northington Partners Limited confirms that it:

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

Northington Partners 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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Abbreviations and Definitions

Code	The Takeovers Code
Conversion Shares	The issue of 1,212,606 shares in the Company (at a price of NZ$0.05 per share) to two shareholders comprising the Equity Capital Providers pursuant to an agreement to convert a portion of the loans advanced by those shareholders into shares in Lateral
Debt Funding	NZ$400,000 of debt funding secured from finance company FE Investments Limited
Debt Fee Shares	The issue of 666,666 shares in the Company (at a price of NZ$0.03 per share) to one shareholder comprising the Equity Capital Providers as a debt establishment fee relating to the Debt Funding
EBIT	Earnings before Interest and Tax
EBITA	Earnings before Interest, Tax, and Amortisation
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
Equity Capital Providers	Four existing Lateral shareholders who have agreed to invest NZ$350,000 of equity capital into the Company
FY	Financial Year
Guarantee Shares	The issue of 1,804,932 shares in the Company (at a price of NZ$0.03 per share) to the Equity Capital Providers as consideration for the Equity Capital Providers agreeing to personally guarantee the Debt Funding
Lateral or Company	Lateral Corporation Limited
Northington Partners	Northington Partners Limited
NPAT	Net Profit After Tax
NTA	Net Tangible Assets
NZ$	New Zealand dollars
NZAX	The NZX Alternative Market, being the secondary market operated by NZX
NZX	NZX Limited
Placement	The raising of NZ$350,000 equity capital through the issue of 7,000,000 shares in the Company to the Equity Capital Providers at a price of NZ$0.05 per share
Proposed Share Allotments	The issue in aggregate of 11,747,600 shares in the Company relating to the Placement, the Guarantee Shares, the Debt Fee Shares and the Conversion Shares

1.0 Assessment of the Merits of the Proposed Allotments

1.1. Introduction

Lateral Corporation Limited ("**Lateral**" or "**Company**") operates an advanced digital platform for the development of cloud-based web apps, carrier billing and interactive text messaging services. The Company's shares are quoted on the NZX Alternative Market ("**NZAX**").

Lateral is currently operating at a loss and has an immediate need for additional funds to meet working capital requirements and pay creditors. To address its funding issues, the Company has recently entered into a series of arrangements ("**Financing Arrangements**") to secure:

(a) NZ$350,000 of equity capital from a placement to four existing shareholders ("**Equity Capital Providers**") at a price of NZ$0.05 per share ("**Placement**").

(b) NZ$400,000 of debt funding from finance company FE Investments Limited ("**Debt Funding**"). In respect of the Debt Funding:

   (i) The Equity Capital Providers have agreed to personally guarantee the Debt Funding in return for a guarantee fee of 9%, which will be satisfied through the issue of shares in Lateral at NZ$0.03 per share ("**Guarantee Shares**").

   (ii) One of the Equity Capital Providers will be paid a debt establishment fee of $20,000, which will be satisfied through the issue of shares in Lateral at NZ$0.03 per share ("**Debt Fee Shares**").

(c) A restructuring of loans made to Lateral by two of the Equity Capital Providers, pursuant to which 15% of the relevant loans will be converted to shares in Lateral at NZ$0.05 per share ("**Conversion Shares**").

These Financing Arrangements are covered by Resolution 2 as set out in the Notice of Meeting, with key terms as summarised in Section 1.3 below. Each aspect of the Financing Arrangements involves the proposed issue of new shares in the Company. In aggregate, 11,747,600 new shares are proposed to be issued in respect of the Placement, the Guarantee Shares, the Debt Fee Shares and the Conversion Shares (together, the "**Proposed Share Allotments**").

Subject to Lateral's shareholders approving the Proposed Share Allotments, the Company has indicated its intention to offer shares to all existing shareholders at NZ$0.05 per share via a share purchase plan ("**SPP**").

1.2. Regulatory Requirements and Scope of this Report

Lateral is a "Code Company" as defined by the Takeovers Code ("**Code**") and the four Equity Capital Providers are acting jointly or in concert and will be deemed associates under the Code. Accordingly, the Proposed Share Allotments can only take place if they are made in accordance with the provisions set out in the Code.

Rule 18 of the Code requires the directors of Lateral to obtain a report from an independent adviser on the merits of the Proposed Share Allotments. The Company's directors requested Northington Partners Limited ("**Northington Partners**") to prepare the Rule 18 report, and our appointment was subsequently approved by the Takeovers Panel. Further details on the regulatory requirements and scope of this report are set out in Appendix 1.

This report will accompany the Notice of Meeting to be sent to all Lateral shareholders and sets out our opinion on the merits of the Proposed Share Allotments. This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 3.

1.3. Key Terms of the Financing Arrangements

1.3.1. Placement

The key terms relating to the Placement are set out in Table 1 below.

Table 1: Placement – Key Terms

Item	Description		
Issue Price	NZ$0.05 per share		
Equity Capital Providers	**Name**	**Amount**	**Relationship with Company**
	Dene Biddlecombe	$130,000	Chairman & substantial security holder
	John Philpott	$80,000	Substantial security holder
	Russell Maloney	$100,000	Substantial security holder
	Roger Grice	$40,000	Substantial security holder
	Total	**$350,000**	
Brokerage	Lateral is to pay brokerage of 4.5% on funds raised under the Placement, in cash, as funds are received.		
Convertible Loans	Given Lateral has an urgent need for new capital, the Equity Capital Providers have entered into convertible loan agreements to advance their Placement funds at mutually agreed times. Each convertible loan will then convert to shares at NZ$0.05 per share upon all necessary shareholder and regulatory approvals being obtained. If shareholder approval is not given, the convertible loans are immediately repayable to the Equity Capital Providers together with interest from the date of the advance until the date of repayment at a rate of 20% per annum.		

Source: Lateral

1.3.2. Debt Funding

The key terms relating to the Debt Funding are set out in Table 2 below.

Table 2: Debt Funding – Key Terms

Item	Description	
Debt Provider	FE Investments Limited	
Amount	NZ$400,000	
Interest Rate	12.75% per annum	
Term	Matures 31 December 2017	
Security	General security agreement over the assets of Lateral plus personal guarantees from the Equity Capital Providers, as follows:	
	Guarantor	**Guarantee Amount**
	Dene Biddlecombe	$150,000
	Roger Grice	$100,000
	John Philpott	$75,000
	Russell Maloney	$75,000
Debt Establishment Fee	NZ$20,000 to be paid to John Philpott as shares in the Company issued at NZ$0.03 per share.	
Guarantee Fee	A fee of 9% per annum of the amount guaranteed (being an aggregate fee for the guarantors over the term of the Debt Funding of NZ$54,147.95). The	

fee is payable in advance to each guarantor through the issue of shares in the company at NZ$0.03 per share.

Source: Lateral

1.3.3. Conversion of Director and Shareholder Loans

The Company has received loans from several shareholders in the Company. Two of those shareholders are Roger Grice and Dene Biddlecombe, who are also Equity Capital Providers and "associates" for the purposes of the Code.

In relation to their respective loan amounts outstanding as at 30 June 2016, both Mr Grice and Mr Biddlecombe have agreed with the Company that:

- 60% of the loan amount will be written off;
- 15% will be converted into shares at NZ$0.05 per share; and
- 25% will be converted into a two-year loan at 0% interest.

Under this arrangement, a total of 1,212,606 Conversion Shares will be issued - 1,041,606 shares to Mr Grice and 171,000 shares to Mr Biddlecombe.

The same arrangement described above in relation to Messrs Grice and Biddlecombe has also been entered into with other directors or former directors who are owed amounts from Lateral (transactions contemplated by Resolution 1 in the Notice of Meeting). Although this will involve the issue of a further 1,063,396 shares in the Company, the directors or former directors concerned are not acting jointly or in concert (unlike the four Equity Capital Providers) and are not deemed "associates" for the purposes of the Code. Accordingly, given the amounts involved, the debt to equity conversion agreed to by each of these other directors or former directors has no implications under the Code and is not considered further as part of this report.

1.4. Summary of Our Assessment

1.4.1. Lateral's Current Position and Requirements

As detailed in Section 2.0, Lateral has incurred operating losses each year since it listed on the NZAX. Lateral's results for the year ended 31 March 2016 reported negative equity of $1.067 million.

Since the end of FY2016, Lateral has raised NZ$150,000 in new equity capital from three qualified investors who each subscribed for $50,000 of ordinary shares in the Company at NZ$0.05 per share. The Company has also secured NZ$135,000 in co-funding from an entity associated with its Chairman, Dene Biddlecombe, to fund customer acquisition campaigns in return for a future profit share arrangement.

Despite these recent initiatives, Lateral continues to operate at a loss and is currently burdened with a large amount of trade creditor debt. The Company has recently received statutory demands from more than one trade creditor, with those demands being satisfied out of the proceeds of shareholder loans described in Section 1.3.3 above.

Lateral has an urgent need for funding to meet working capital requirements and repay creditors, which is the intended use of funds from the proposed Financing Arrangements.

1.4.2. Impact on Control Position of Lateral

Subject to receiving shareholder approval in compliance with the Code, the impact of the Proposed Share Allotments will be to increase the Equity Capital Providers' aggregate control percentage in the Company. A summary of the current control position of each of the Equity Capital Providers and the changes that will occur if the Proposed Share Allotments are approved is set out in Table 3 below. We have ignored the potential impact of the planned SPP given this is expected to be implemented following the completion of the Proposed Share Allotments.

Table 3: Changes in Control Position of each Equity Capital Provider

Equity Capital Provider	Current Position		Proposed Share Allotments				Following Share Allotments	
	Shares Held	Control %	Conversion Shares	Guarantee Shares	Debt Fee Shares	Placement Shares	Shares Held	Control %
Roger Grice	5,833,333	18.55%	1,041,606	451,233	-	800,000	8,126,172	18.81%
Dene Biddlecombe	2,617,557	8.32%	171,000	676,849	-	2,600,000	6,065,406	14.04%
John Philpott	2,833,334	9.01%	-	338,425	666,666	1,600,000	5,438,425	12.59%
Russell Maloney	2,010,000	6.39%	-	338,425	-	2,000,000	4,348,425	10.07%
Total	**13,294,224**	**42.27%**	**1,212,606**	**1,804,932**	**666,666**	**7,000,000**	**23,978,428**	**55.51%**

Source: Lateral

If the Proposed Share Allotments are approved, the Equity Capital Providers' control position in the Company will increase by 13.24% to 55.51%. Following this increase and assuming they continue to act jointly or in concert:

- Lateral will continue to be listed on the NZAX with the Equity Capital Providers controlling more than half of the shares on issue.
- Provided the Equity Capital Providers are permitted to vote, they will have effective day-to-day control of the Company by being able to pass ordinary resolutions unilaterally. Ordinary resolutions require support from more than 50.0% of the shareholders entitled to vote and voting on the resolution.
- Provided the Equity Capital Providers are permitted to vote, they will be in a position to veto special resolutions of the Company (which require support from at least 75.0% of shareholders entitled to vote and voting on the relevant matter).
- The Equity Capital Providers will have the ability to appoint a majority of directors to the board of Lateral.
- We would not expect liquidity in the Company (which has historically been low) to be materially impacted. This is because the Proposed Share Allotments will not result in a reduction in the number of shareholders in the Company (in contrast to a takeover offer where the number of shareholders in the target company are reduced to the extent shareholders accept the offer).

In terms of the ability to pass ordinary resolutions, we do not believe the Proposed Share Allotments will have a material impact on the control position of the Company. Although the Equity Capital Providers will be able to pass ordinary resolutions unilaterally (assuming they continue to act jointly or in concert) following the Proposed Share Allotments, between them the Equity Capital Providers currently have a control interest of 42.27%. Thus, currently the Equity Capital Providers would only need the support of shareholders comprising a further 7.73% of the share register in order to pass ordinary resolutions. Given the Equity Capital Providers comprise the Chairman of the Board and the Company's Chief Executive Officer, we believe it is highly likely that they would currently have the ability to convince other shareholders of the merits of supporting them in the passing of an ordinary resolution. Thus, in a practical sense, we believe the ability of the Company to pass ordinary resolutions is unlikely to be materially impacted as result of the Proposed Share Allotments.

Special resolutions typically relate to what can be thought of as "major transactions" for the subject company, and include proposals such as changes to the company constitution and acquisitions or divestments with transaction values that exceed certain thresholds. With a current aggregate shareholding of 42.27%, the Equity Capital Providers (acting jointly or in concert) already have the ability to veto a special resolution. The Proposed Share Allotments will not therefore alter their ability to exercise this power of veto, if they so choose.

With an aggregate shareholding of 42.27% the Equity Capital Providers currently require the support of other shareholders controlling 32.73% of the Company's shares to pass special resolutions. If the Proposed Share Allotments are approved, the level of support required from other shareholders would decrease to 19.49% of the Company's shares. Although on the face of it this outcome suggests a material impact on the control position of the Company, in practice we do not believe that this will be the case. If it is assumed that the investment objectives of the Equity Capital Providers are closely aligned with those of all of the other shareholders, the practical impact of the Proposed Share Allotments on the voting outcomes for special resolutions is likely to be limited.

On balance, we do not believe the Proposed Share Allotments will in practice have a material impact on the control position of the Company.

1.4.3. Issue Price of Proposed Share Allotments

The Proposed Share Allotments involve two different issue prices – NZ$0.05 per share for the Placement and the Conversion Shares and NZ$0.03 per share for the Guarantee Shares and Debt Fee Shares. Approximately 77% of the Proposed Share Allotments (as summarised above in Table 3) will be issued at $0.05 per share.

As discussed in Section 3.0 below, we believe that the $0.05 issue price is reasonable from the point of view of the Lateral shareholders who are not participating in the transaction. Given the current position and prospects of the Company, we suggest that it is very difficult to assess a reliable valuation range for the business: However, it could easily be argued that the implied post-transaction equity value of approximately $2.16m is at the top end of a reasonable range.

We understand that the $0.03 issue price for the Guarantee Shares and Debt Fee Shares was agreed following negotiations which took place early in the restructuring process and at a time when it was less clear whether all of the Proposed Share Allotments would take place. The lower price reflected greater uncertainty over the financial viability of the business and is reasonable in the circumstances. We also note that because only 23% of the Proposed Share Allotments will be issued at the lower value, the impact on other shareholders is relatively limited.

1.4.4. Alternative Capital Raising Options

If the Proposed Share Allotments are not approved, Lateral would urgently need to consider alternative funding sources. We believe the alternatives open to the Company are very limited:

- Lateral could consider a pro-rata rights issue. However, given the Company's current precarious financial position and urgent need for cash, we believe the issue price for a rights issue would likely need to be set below the NZ$0.05 level agreed for the Placement in order for the Company to be confident of raising a reasonable amount of capital. Even at a heavily discounted issue price, there could be a significant level of under-subscriptions which would then need to be offered to shareholders interested in acquiring more than their pro-rata entitlement. Given the discounted offer price that would need to apply to a rights issue, this could prove more detrimental to those shareholders who are not in a position to invest sufficient capital to maintain their current shareholding percentage than will be the case if the Proposed Share Allotments are approved. Meeting the regulatory requirements for this type of process may also considerably add to the time required to complete the capital raising.
- The Company could search for a new cornerstone shareholder. However, we understand the Board has considered this option and concluded that a capital injection could not be secured on better commercial terms than those offered by the Equity Capital Providers.

We understand the Board recently received an unsolicited offer for finance from a party connected with a shareholder in the Company. However, that offer comprised principally an offer for debt finance with no guaranteed injection of new equity capital that the Company urgently requires. Accordingly, the Company's Board rejected the offer on the basis that it was inferior to that which is contemplated by the Financing Arrangements.

Based on the Company's financial position, and taking into account the current market environment, we therefore conclude that the Company currently has no alternative capital raising prospects that are likely to provide Lateral shareholders with a better outcome than that offered by the Proposed Share Allotments.

1.4.5. Implications of Approving the Proposed Share Allotments

The implications of approving the Proposed Share Allotments (which will allow for implementation of the Financing Arrangements) can be summarised as follows:

- The Company will raise additional funds that, in the opinion of the Company's directors, will allow it to satisfy all of its creditors and provide working capital.
- With an improved financial position, the Company will then be in a position to proceed with its planned SPP, offering all shareholders the opportunity to invest at the same issue price as the Equity Capital Providers under the Placement. Any funds raised via the SPP will provide the Company with additional working capital for funding customer acquisitions through sales and marketing initiatives.
- The above two initiatives should give the Company more time to prove its business model for the benefit of all shareholders.
- The aggregate shareholding of all shareholders other than the Equity Capital Providers will decrease from 57.73% to 44.49%. While the commensurate increase in the Equity Capital Providers' shareholding will provide the Equity Capital Providers with the ability to unilaterally pass ordinary resolutions, for the reasons outlined in Section 1.4.2 above, we do not believe that the Proposed Share Allotments will in practice have a material impact on the control position of the Company.

1.4.6. Implications of Rejecting the Proposed Share Allotments

Lateral is currently burdened with a large amount of trade creditor debt and the Company is in urgent need of new funding. If the Proposed Share Allotments are not approved, we believe that the implications would be as follows:

- The Company will have insufficient funds to satisfy all of its creditors and provide it with working capital.
- The Equity Capital Providers have advanced their intended Placement monies to the Company in the form of convertible loans. If shareholder approval is not given, the convertible loans are immediately repayable to the Equity Capital Providers (together with interest at the rate of 20% per annum). It is not clear how the Company would fund the repayment.
- Based on the above two matters, there is a high likelihood that the Company will be placed into liquidation. Given Lateral currently has negative equity, in this situation ordinary shareholders are likely to lose all of their investment in the Company.

1.4.7. Summary of our Assessment

We conclude that the Proposed Share Allotments are in the best interest of the Company and the Lateral shareholders who are entitled to vote on the related ordinary resolutions. This conclusion reflects that:

- Without the funds provided by the Financing Arrangements, the Company is likely to be placed into liquidation;
- The issue prices for the Proposed Share Allotments are reasonable in the circumstances;
- The impact of the Proposed Share Allotments on the control position of the Company are relatively minor; and
- All shareholders will be offered the opportunity to acquire more shares in the Company on the same terms via a proposed share purchase plan.

1.4.8. Acceptance or Rejection of the Proposed Share Allotments

This report represents one source of information that Lateral shareholders may wish to consider when forming their own view on whether to approve or reject the Proposed Share Allotments. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation. If appropriate, shareholders should consult their own professional adviser(s).

2.0 Profile of Lateral Corporation

2.1. Background

2.1.1. Business Model Overview

Lateral listed on the NZAX on 18 August 2014. The Company aims to use its technology and carrier partnerships to create a scalable mobile technology infrastructure that can take advantage of fast growing and lucrative digital categories such as social entertainment, digital content, mobile applications and social gaming.

Lateral's business model is centred on a digital platform it has developed known as "Viaduct". The Viaduct platform allows the Company to develop user-pays mobile interactive applications, products and services. The Company's applications are not reliant on Google or Apple application stores but are accessible as a Web App (i.e. opened on a web browser with an internet connection rather than requiring a software download).

2.1.2. Carrier Billing

Lateral primarily receives its revenue by marketing products and services which are charged to end-users via their mobile phone account. Under this method of billing (referred to as "Carrier Billing"), the mobile carrier collects the revenue from the customer and pays Lateral under a revenue share agreement. Lateral has agreements in place, directly or indirectly, with over 80 mobile carriers, including the main carriers in its target markets of New Zealand, Australia, UK, USA and Canada.

Lateral's ability to generate revenue is dependent on its ability to continue to build and host Web Apps (using its Viaduct platform) and secure customers through its use of partner and affiliate relationships.

Further information on Lateral and the products and services it offers can be obtained from its website: www.lateralcorp.com.

2.2. Capital Structure and Ownership

As at 9 August 2016, Lateral had 31,449,177 ordinary shares on issue held by approximately 33 shareholders. The Company's top five shareholders are set out in Table 4 below. Lateral is very closely held, with the top five shareholders holding nearly 61% of the Company's shares.

Table 4: Top 5 Shareholders

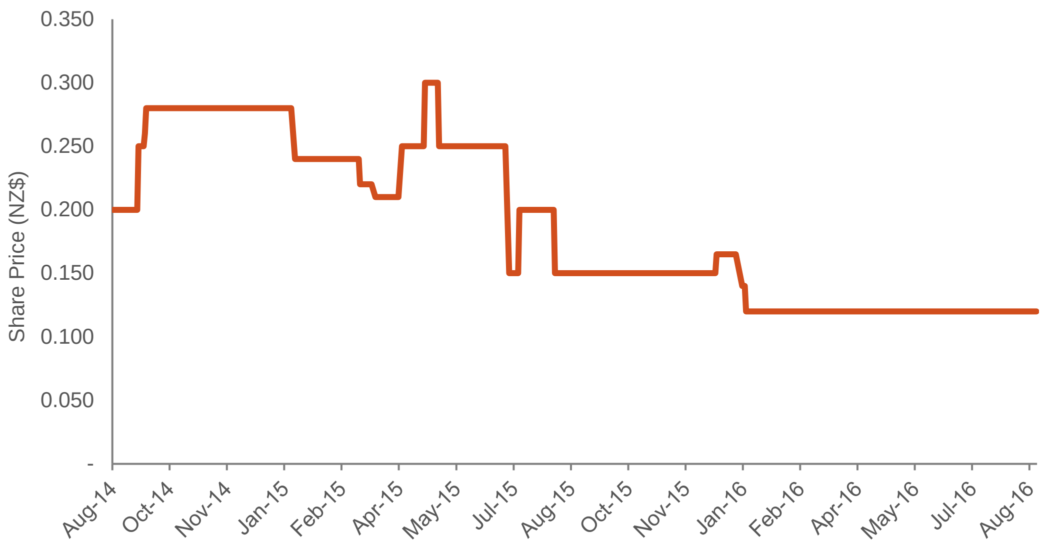
	Shareholder	Number of Shares Held	Shareholding Percentage
1	Roger Grice	5,833,333	18.55%
2	Robert McAuley	5,833,333	18.55%
3	John Philpott and Joanne Philpott	2,833,334	9.01%
4	Dene Biddlecombe	2,617,557	8.32%
5	Russell Maloney	2,010,000	6.39%
	Top 5 Shareholders	**19,127,557**	**60.82%**
	Remaining Shareholders	12,321,620	39.18%
	Total Shares on Issue	**31,449,177**	**100.00%**

Source: Lateral

2.3. Share Price Performance and Liquidity

The performance of Lateral's share price since it listed nearly two years ago is shown in Figure 1 below. From a listing price of NZ$0.20 per share, the Company's shares hit a high of NZ$0.30 before falling to their current low of NZ$0.12 per share.

Figure 1: Lateral Share Price Performance



Sources: Capital IQ

The Company's shares have traded at NZ$0.12 per share since reaching that point on 8 January 2016.

Consistent with the nature of the Company and the low number of shareholders, the Company's shares have historically suffered from very low liquidity. Details on the liquidity of Lateral's shares during the last 12 months are set out in Table 5 below.

Table 5: Lateral Share Liquidity

	12 Months to 11 August 2016
Number of Trading / Non-Trading Days	10 / 242
Total Shares Traded (000)	117.7
Shares on Issue (000)	31,449
Total Shares Traded / Shares on Issue	0.37%

Sources: Capital IQ

2.4. Financial Information

2.4.1. Financial Performance

A summary of Lateral's financial performance for FY2015 and FY2016 is set out in Table 6 below. The Company did not derive any revenue from operations or incur any expenses for the year ended 31 March 2014.

Table 6: Lateral Historical Financial Performance

NZ$ Year end 31 March	FY2015	FY2016
Operating Revenue	434,405	408,977

Cost of Sales	(286,680)	(226,468)
Gross Profit	**147,725**	**182,509**
Margin	*34%*	*45%*
Other Income	1,132	937
Administration Expenses	(1,349,669)	(925,624)
EBITDA	**(1,200,812)**	**(742,178)**
Depreciation, Amortisation and Impairment	(2,996)	(114,990)
Finance Costs	(28,028)	(42,280)
Income Tax Expense	-	-
NPAT	**(1,231,836)**	**(899,448)**

Sources: Lateral Audited Financial Statements

The main features of Lateral's historical financial performance can be summarised as follows:

- Operating revenue has declined by around 6% in FY2016, predominately due to a reduction in SMS income. This was offset by an increase in Mobile Web social messaging.
- In terms of geographic segments, FY2016 sales in New Zealand were down by around $100,000, partially offset by an increase in sales in Australia of around $75,000.
- Overheads reduced by around $420,000 in FY2016 due to the large reduction in employee and contractor expenses, in addition to a general reduction in most other overheads. This is in line with ongoing efforts by management to control expenses.
- The increase in Depreciation, Amortisation and Impairment is predominately due to fully impairing trademarks relating to the social networking and internet dating product, Qikflirt.

2.4.2. Financial Position

Table 7 below summarises Lateral's financial position for the last two financial years.

Table 7: Lateral Statement of Historical Financial Position

NZ$ As at 31 March	**FY2015[1]**	**FY2016**
Cash & Cash Equivalents	197,113	372
Trade and Other Receivables	98,717	62,830
Income Tax Receivable	1,796	1,763
Current Assets	**297,626**	**64,965**
Property, Plant & Equipment	3,356	3,000
Intangible Assets	115,218	5,474
Non-Current Assets	**118,574**	**8,474**
Total Assets	**416,200**	**73,439**
Bank Overdraft	-	15,061
Trade and Other Payables	332,584	647,597
Loans from Related Parties	447,372	478,086
Total Liabilities	**779,956**	**1,140,744**
Issued Capital	1,085,317	1,090,400
Retained Earnings (Loss)	(1,351,836)	(2,251,284)
Equity Reserves	(97,237)	(97,237)
Mandatory Convertible Notes	-	190,816
Total Equity	**(363,756)**	**(1,067,305)**

Source: Lateral Audited Financial Statements
1. Restated

The main features of Lateral's financial position are summarised as follows:

- Lateral has reported negative equity in the last two years, with the position worsening in FY2016 due to a reduction in cash balances and working capital assets, impairment of intangible assets and a significant increase in working capital liabilities.
- Net working capital is negative and has deteriorated markedly in FY2016. As at balance date, the Company had no cash reserves and trade payables had increased markedly.

2.4.3. Cash Flows

Table 8 below summarises Lateral's historical cash flows for FY2015 and FY2016.

Table 8: Lateral Statement of Historical Cash Flows

NZ$ **Year end 31 March**	**FY2015**	**FY2016**
Receipts	392,852	451,973
Payments to Suppliers	(912,528)	(533,243)
Payments to Employees	(476,666)	(318,267)
Interest Paid	(28,028)	(34,021)
Income Tax Paid	639	33
Operating Cash Flow	**(1,023,731)**	**(433,525)**
Purchase of Property, Plant & Equipment	(112)	(430)
Purchase of Intangible Assets	(1,826)	(4,460)
Investing Cash Flow	**(1,938)**	**(4,890)**
Issue of Share Capital	851,317	5,083
Borrowings	233,072	30,714
Convertible Notes	-	190,816
Financing Cash Flow	**1,084,389**	**226,613**
Net Cash Flow	**58,720**	**(211,802)**

Source: Lateral Audited Financial Statements

2.5. Key Issues and Outlook

The accounts for FY2016 clearly show that the Company is in a dire financial position and will be unable to continue operations without a significant cash injection.

3.0 Commentary on the Valuation of Lateral

An important consideration for all Lateral shareholders is the relativity between the issue price for the Proposed Share Allotments and the perceived underlying value of the Company's shares. Because all shareholders other than the Equity Capital Providers will have their proportional shareholding in Lateral diluted by the Proposed Share Allotments, the economic value of the investment in the Company held by shareholders other than the Equity Capital Providers will be reduced if the issue price for the Proposed Share Allotments is lower than the underlying intrinsic value of the shares currently on issue.

Given the nature of the Company, its financial performance since listing and its current financial position, we have not formally assessed the underlying value of Lateral. While the directors believe that it is possible to reverse the recent losses and create a sustainable business, there are clearly a wide range of issues to overcome and the future outcomes are subject to considerable uncertainty. In these circumstances, we suggest that it is not possible to sensibly apply standard valuation methodologies to the Lateral business.

However, based on our review of the Company and its prospects, we conclude that the proposed issue price of $0.05 for the Placement and Conversion shares is reasonable in the circumstances. We considered the following factors in reaching that conclusion:

- At an issue price of $0.05, the Company will have an implied equity value of approximately $2.16m after all of the contemplated financing arrangements have been put in place. Given Lateral's recent performance and taking account of the Company's current level of financial distress, we believe that this value could be viewed as being at the top end of a reasonable range.

- While the market value of the Lateral shares has been reported at $0.12 per share since the start of 2016, there has been a very limited number of trades and we do not believe that the implied total equity value of approximately $3.77m is supportable.

- Given the Company's negative net asset position and uncertain prospects, we believe that it is extremely unlikely that a significant new level of equity could be raised at a value greater than $0.05 per share.

- Lateral currently intends to offer all shareholders the opportunity to acquire additional shares at $0.05 via a share purchase plan. Those shareholders that believe that the opportunity provides compelling value at that share price can participate in the share purchase plan and thereby reduce the level of dilution resulting from the Proposed Share Allotments.

Appendix 1: Regulatory Requirements and Scope of this Report

Role of Takeovers Panel

The Takeovers Code sets out rules governing the conduct of company takeovers in New Zealand. The provisions of the Code apply to any company that is a “Code Company” (as defined in the Code). Lateral is a “Code Company” by virtue of it being listed on the NZAX.

The fundamental rule of the Code is set out in Rule 6 and prevents any person (together with their associates) from becoming the holder or controller of 20% or more of the voting rights in a “Code Company” other than via one of several courses of action prescribed in Rule 7 of the Code. In Lateral’s case, the four Equity Capital Providers are acting jointly or in concert and will be deemed associates under the Code.

Pursuant to Rule 7(d) of the Code, a person (together with their associates) may become the holder or controller of 20% or more of a Code Company by an allotment of voting securities that has been approved by an ordinary resolution of the Code Company. Lateral intends that the Proposed Share Allotments be implemented pursuant to Rule 7(d).

Rule 16 of the Code sets out the information requirements for the notice of meeting containing the resolution in respect of a proposed allotment of shares pursuant to Rule 7(d). One of the requirements is for an Independent Adviser’s Report under Rule 18 of the Code that examines the merits of the proposed allotment having regard to the interests of the persons who may vote on the allotment.

Lateral’s directors requested Northington Partners Limited to prepare the Rule 18 report required by the Code. Our appointment was approved by the Takeovers Panel on 2 August 2016.

Basis of Assessment

The exact meaning of the word “merits” is not prescribed in the Code and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered when assessing the merits of a takeover offer. Although the Takeovers Panel has published a guidance note about the role of an Independent Adviser, it has been careful not to limit the scope of the assessment and states that the relevant factors that should be taken into consideration will depend on the features of the proposed transaction as well as the prevailing circumstances of the parties involved. However, the Takeovers Panel suggests that a merits assessment is broader than a valuation assessment and will include other positive and negative aspects of a transaction.

Northington Partners has assessed the merits of the Proposed Share Allotments by taking into account the following factors:

- The allotment prices for each of the Proposed Share Allotments.
- The impact of the Proposed Share Allotments on the Equity Capital Providers’ control position of Lateral.
- The alternatives to the Proposed Share Allotments open to Lateral and the consequences for existing shareholders if the Proposed Share Allotments are not approved.
- Such other financial and non-financial considerations as may be appropriate in the circumstances.

Appendix 2: Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Lateral's Disclosure Document dated 18 August 2014 in respect of its compliance listing on the NZAX.
- Lateral's Annual Report for 2015 and 2016.
- Audited financial statements for Lateral for FY2015 and FY2016.
- Discussions with Joseph van Wijk, Lateral's Independent Director.
- The website of Lateral.
- Notice of Meeting dated 31 August 2016 in respect of the meeting of Lateral's shareholders required to approve the Proposed Share Allotments.

Appendix 3: Declarations, Qualifications and Consents

Declarations

This report is dated 31 August 2016 and has been prepared by Northington Partners at the request of the directors of Lateral to fulfil the requirements of the Takeovers Panel in relation to the Proposed Share Allotments. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to Lateral for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of Lateral (other than the Equity Capital Providers) that are being asked to consider the Proposed Share Allotments, and Northington Partners consents to the distribution of this report to those people. Our engagement terms did not contain any term which materially restricted the scope of our work.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

Northington Partners has not been previously engaged on any matter by Lateral or (to the best of our knowledge) by any other party to the Proposed Share Allotments that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the Proposed Share Allotments.

The preparation of this independent report will be Northington Partners' only involvement in relation to the Proposed Share Allotments. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by Lateral. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Indemnity

Lateral has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Lateral has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Northington

Partners