

Sealegs Corporation Limited

Independent Adviser's Report and Appraisal Report

In Respect of the Proposed Allotment of 31,000,000 Shares to Avenport Investment Corporation

July 2010

Index

Section	Page
1. Introduction	1
2. Evaluation of the Merits of the Avenport Allotment.....	5
3. Evaluation of the Fairness of the Avenport Allotment.....	15
4. Profile of Sealegs.....	17
5. Sources of Information, Reliance on Information, Disclaimer and Indemnity	23
6. Qualifications and Expertise, Independence, Declarations and Consents	25

1. Introduction

1.1 Background

Sealegs Corporation Limited (**Sealegs** or the **Company**) is listed on the main equities security market (**NZSX**) operated by NZX Limited (**NZX**) with a market capitalisation of \$22.3 million as at 30 June 2010 and audited equity of \$5.6 million as at 31 March 2010.

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

1.2 Avenport Investment Corporation

Avenport Investment Corporation (**Avenport**) is a private equity investment company that was established in 2001 and is based in Mauritius. The Company holds a diverse array of investments ranging from real estate as far afield as the USA and Europe to an investment fund focussed on the hospitality sector, various listed company shares in Mauritius and private company shares associated with the luxury goods market.

The directors of Avenport are:

- Mitch Barrett
- Jean-Baptiste Salmon
- Eric Series
- Halifax Management Limited (a professional fiduciary services provider providing directorship and company secretarial services).

The shareholder of Avenport is Beep International Trust. Mr Series is a beneficiary of that trust.

We are advised that neither Avenport nor Mr Series are associated with any of Sealegs' directors or major shareholders.

1.3 Avenport Allotment

Avenport has been a shareholder in Sealegs since 24 May 2010. It currently holds 19.87% of the Company's 93,090,190 ordinary shares on issue.

Avenport Shareholding in Sealegs					
Date	Transaction	Counterparty	No. of Shares	Price (\$)	Consideration (\$000)
24 May 10	Placement	Sealegs	14,000,000	0.20	2,800
11 Jun 10	Off-market transfer	Furzeffield	4,500,000	0.14	630
			<u>18,500,000</u>	<u>0.185</u>	<u>3,430</u>
% of total shares on issue			19.87%		

Sealegs placed 14,000,000 ordinary shares to Avenport on 24 May 2010 at an issue price of \$0.20 per share, raising \$2.8 million of fresh equity (the **Original Allotment**).

Avenport acquired a further 4,500,000 ordinary shares from Furzefield Pty Limited (**Furzefield**) on 11 June 2010 by way of an off-market transfer for a net consideration of \$0.63 million, equating to \$0.14 per share.

Furzefield was at the time the third largest shareholder in the Company, holding 6.63% of the shares. It now holds 1.79% of the Company's shares. Furzefield is associated with William Burrell, a former director of Sealegs.

Sealegs announced on 21 June 2010 that it proposes to raise a further \$6.2 million of fresh equity by allotting 31,000,000 shares to Avenport at a subscription price of \$0.20 per share (the **Avenport Allotment**).

The terms of the Avenport Allotment are set out in a draft Subscription Agreement between Sealegs and Avenport. The key terms of the Avenport Allotment are:

- Sealegs will issue 31,000,000 new fully paid ordinary shares to Avenport
- Avenport will subscribe for the shares at a price of \$0.20 per share
- settlement date is by 4 August 2010
- the new shares will be issued on terms identical to, and will rank pari passu with, all of Sealegs' existing shares
- in the event that prior to the settlement date there is a capital restructuring of the Company, the number of shares issued to Avenport shall be adjusted on an appropriate basis
- the allotment is conditional on shareholder approval and regulatory approval.

The Avenport Allotment will result in Avenport becoming the holder of 39.89% of the voting rights in the Company.

Changes in Shareholding Following the Avenport Allotment					
	Current		Avenport Allotment	Post Avenport Allotment	
	No. of Shares	%		No. of Shares	%
Avenport	18,500,000	19.87%	31,000,000	49,500,000	39.89%
Non-associated Shareholders	74,590,190	80.13%	-	74,590,190	60.11%
Total	<u>93,090,190</u>	<u>100.00%</u>	<u>31,000,000</u>	<u>124,090,190</u>	<u>100.00%</u>

Sealegs also currently has 9,650,000 options on issue to executive directors and senior management. All the options are currently in the money. Details of the options are set out in section 4.7.

1.4 Regulatory Requirements

Takeovers Code

Rule 6 of the Takeovers Code (the **Code**) 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%
- a person holding 20% or more of the voting rights in a code company from increasing its control of voting rights

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

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their control of voting rights beyond 20% by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Avenport Allotment will result in Avenport increasing its shareholding in the Company from 19.87% to 39.89%. Accordingly, the Company's shareholders other than Avenport (the **Non-associated Shareholders**) will vote on a resolution in respect of the Avenport Allotment at Sealegs' annual general meeting on 30 July 2010.

Avenport is not permitted to vote on the resolution.

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

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

NZSX Listing Rules

Listing Rule 7.5.1 of the NZSX Listing Rules states that no issue of securities shall be made by an Issuer if there is a significant likelihood that the issue will result in any person or group of Associated Persons who hold at least 1% of the voting rights in the Issuer materially increasing their ability to exercise, or direct the exercise of effective control of that Issuer unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

Listing Rule 6.2.2(a) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.5.1.

Listing Rule 9.2.1 stipulates that an Issuer shall not enter into a Material Transaction if a Related Party is a party to the Material Transaction or to one of a related series of transactions of which the Material Transaction forms part without first obtaining approval of the transaction by way of an ordinary resolution from shareholders not associated with the Related Party. The Avenport Allotment is a Material Transaction because the allotment has a value greater than 10% of Sealegs' average market capitalisation (as calculated in accordance with the Listing Rules). Avenport is a Related Party of the Company as its current shareholding in Sealegs exceeds 10% of the total shares on issue.

Listing Rule 9.2.5 requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 9.2.1.

1.5 Purpose of the Report

The directors of Sealegs have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the allotment of shares under the Avenport Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 15 June 2010 to prepare the Independent Adviser's Report.

The directors have engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the Avenport Allotment in accordance with Listing Rules 6.2.2(a) and 9.2.5.

Simmons Corporate Finance was approved by NZX on 14 June 2010 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the directors of Sealegs for the benefit of the Non-associated Shareholders and to assist them in forming their own opinion on whether to vote for or against the resolution in respect of the Avenport Allotment.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits and fairness of the allotment of shares under the Avenport Allotment in relation to each shareholder. This report on the merits and fairness of the allotment of shares under the Avenport Allotment is therefore necessarily general in nature.

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

2. Evaluation of the Merits of the Avenport Allotment

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares under the Avenport Allotment.

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

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

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

We are of the view that an assessment of the merits of the allotment of shares under the Avenport Allotment should focus on:

- the rationale for the Avenport Allotment
- the issue price of the shares under the Avenport Allotment
- the terms and conditions of the Avenport Allotment
- the impact of the Avenport Allotment on Sealegs' net tangible assets (**NTA**)
- the impact of the Avenport Allotment on the control of the Company
- the impact of the Avenport Allotment on Sealegs' share price
- the benefits and disadvantages to the Non-associated Shareholders of the Avenport Allotment
- the implications if the resolution in respect of the Avenport Allotment is not approved.

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

2.2 Summary of the Evaluation of the Merits of the Avenport Allotment

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

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

- the rationale for the Avenport Allotment is sound. Sealegs requires additional capital to fund its growth initiatives which are projected to significantly increase its revenue and earnings
- alternative capital raising options to the Avenport Allotment are limited and are unlikely to provide the same level of capital within a similar timeframe
- the terms of the Avenport Allotment are reasonable. The issue price of \$0.20 per share is in line with the Company's current share price
- the Avenport Allotment will have a positive impact on the Company's NTA as the issue price of \$0.20 per share is significantly higher than the Company's NTA per share as at 31 March 2010 of \$0.067
- the Avenport Allotment will significantly increase Avenport's ability to influence the outcome of shareholder voting
- Avenport will be granted a single seat on the Sealegs' board of directors along with the role of chairman
- the dilutionary impact of the Avenport Allotment on Non-associated Shareholders will be in the vicinity of 25%
- the Avenport Allotment is unlikely to have any material impact on Sealegs' share price or the liquidity of its shares in the near term
- the Avenport Allotment may reduce the attraction of Sealegs as a takeover target to a minor degree
- the implications of the Avenport Allotment not being approved by the Non-associated Shareholders are that Sealegs will not have sufficient funds to fully execute its growth plans. Alternative capital raising initiatives will need to be undertaken but there is no guarantee that such initiatives will deliver the level of capital sought or provide capital within the desired timeframes.

2.3 Rationale for the Avenport Allotment

Requirement for Additional Capital

We are advised by Sealegs' directors that the purpose of the Avenport Allotment is to raise sufficient funds to allow for the expansion and associated initiatives to grow the Company's sales on a global level.

We have been provided with high level financial projections for the Company for the five years to March 2015 (the **Sealegs 5 Year Projections**). Sealegs is projecting significant growth in units sold over the period (at a compound annual growth rate in excess of 30%) and the need for funding of approximately \$6 million.

The funds will be applied to:

- stocking boats in major markets around the world such as France and the United States
- the development of new products
- promotional expenditure in new markets
- cash flow coverage
- new hires
- overseas assembly initiatives.

The \$6.2 million raised from the Avenport Allotment will meet the Company's projected funding requirements.

Alternative Capital Raising Options

The Company's last major capital raising was a rights issue completed in July 2008, which raised a total of \$3.4 million. Shareholders subscribed for approximately 89% of their entitlements and the shortfall was subsequently placed to investors.

If the Avenport Allotment is not approved, Sealegs will need to consider alternative initiatives for raising the capital it requires. We believe that the alternatives open to the Company at present are limited.

We are advised by the Company's directors that their discussions with banks and finance companies have not resulted in the Company being able to raise any significant levels of debt. The financial institutions are unwilling to fund Sealegs' research and development or to accept as security stock units that are exported to overseas markets.

Sealegs could consider another pro rata rights issue similar to that completed in July 2008. However, given that the Company's shareholders did not take up their full entitlements for the previous rights issue, we are of the view that the issue price for a new rights issue would need to be set well below the \$0.20 per share level of the Avenport Allotment 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 either be offered to shareholders interested in acquiring more than their pro rata entitlement or placed with new shareholders (as was the case in July 2008). There is no certainty that the shortfall could be placed.

In order to raise the same amount of capital as contemplated by the Avenport Allotment, we are of the view that a large number of shares would most likely need to be sold to institutional investors at the completion of the rights issue. Given the discounted offer price that would likely apply to the rights issue, these sales would be at a price that was detrimental to those shareholders who were not in a position to invest sufficient capital to maintain their current shareholding percentage. Meeting the regulatory requirements for this type of process would also significantly extend the time required to complete the capital raising.

The Company could search for an additional cornerstone shareholder (in addition to Avenport) in the hope of placing up to 19.99% of the Company's shares. Such a process could take considerable time to undertake with no guarantee that it would be successful. In any event, we are of the view that any new cornerstone shareholder would be unlikely to accept an issue price higher than \$0.20 per share given the recent Original Allotment and the Company's current share price.

Conclusion

In our view, the rationale for the Avenport Allotment is sound. The Company is still in an expansion phase and requires additional capital to broaden its export base and enhance its operational efficiencies. In the current market environment, we are of the view that the Company has limited alternative capital raising options that would provide the Non-associated Shareholders with a better outcome than that offered by the Avenport Allotment.

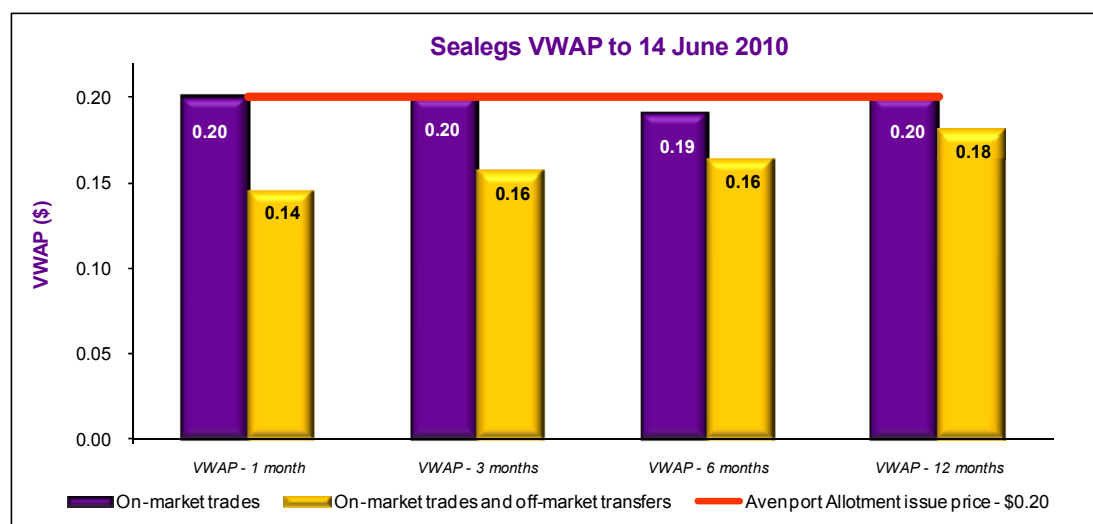
2.4 Terms of the Avenport Allotment

The terms of the Avenport Allotment are identical to the terms of the Original Allotment.

The issue price is \$0.20 per share. We understand that this was based on the Company's volume weighted average share price (**VWAP**) for the month up to 14 June 2010 (being the day before the Company's directors and Avenport agreed the terms of the Avenport Allotment).

Set out in section 4.8 is an analysis of Sealegs' share price history from 3 January 2008. This represents the on-market trading of the Company's shares.

The issue price of \$0.20 is in line with the Company's VWAP measured over the past one month, three months, six months and one year period up to 14 June 2010 for on-market trades.



As noted in section 1.3, Avenport acquired 4,500,000 shares from Furzefield on 11 June 2010 at \$0.14 per share via an off-market transfer. The 4,500,000 shares represented 4.83% of the Company's total shares on issue and exceeded the total number of shares traded on-market for the previous six months.

Taking into account this off-market transfer heavily influences the VWAP. The adjusted VWAP (based on both on-market trades and the off-market transfer) ranges from \$0.14 to \$0.18 over the past one month, three months, six months and one year period up to 14 June 2010. The issue price of \$0.20 is at a premium of 11% to 38% to the adjusted VWAP.

In instances where a company is issuing shares to one shareholder and that shareholder will subsequently hold a significant percentage of the company's voting rights – but less than 50% - we consider the market value of the company's shares to be the most appropriate basis upon which to evaluate the reasonableness of the issue price.

Placements of shares in companies listed on the NZSX have generally (but not always) been undertaken at a discount to their market value (determined on a VWAP basis). A placement of new shares at a discount to their market value results in a value transfer from existing shareholders to the recipients of the new shares. The quantum of the value transfer is dependent on the size of the discount and the size of the share placement.

Under the Avenport Allotment, the shares are to be issued at \$0.20 per share in line with the Company's one month VWAP up to 14 June 2010 (based on on-market trades) and hence no value transfer should arise between the Non-associated Shareholders and Avenport.

The Avenport Allotment will result in Avenport holding 39.89% of the voting rights in Sealegs. While this will increase its ability to influence the outcome of shareholder voting, Avenport will not hold a controlling interest in Sealegs (ie it will not hold more than 50% of the voting rights in the Company). In such circumstances, we are of the view that Avenport should not necessarily be required to pay a premium over the current market value for the shares issued to it under the Avenport Allotment. We discuss the merits of control issues in section 2.6 *Impact on Control*.

While our primary analysis of the reasonableness of the issue price is based on the observed trading prices for Sealegs' shares, we recognise that trading in the Company's shares is relatively thin and therefore observed trading prices may not provide a totally reliable indicator of the market value of the Company's shares. Accordingly, we have undertaken a high level assessment of the value of the Company as a cross-check of the observed market prices.

While the Company has started to establish a record of growing revenues and improving margins, projections of future performance remain subject to considerable uncertainty and any attempt to formally model future outcomes would be extremely subjective. Sealegs has prepared the Sealegs 5 Year Projections which represent high level financial projections for the five year period for the 2011 to 2015 financial years. The Sealegs 5 Year Projections were included in the information provided to Avenport as part of the process of agreeing the terms of the Avenport Allotment.

We have incorporated the Sealegs 5 Year Projections into a high level discounted cash flow (**DCF**) model to assess an underlying value range for the Sealegs shares. Based on a series of assumptions that we believe are reasonable in the circumstances, the values implied by the DCF model are generally consistent with the Company's recent market share prices. However, we note that our valuation assessment is predicated on the Company receiving the additional capital which is proposed under the Avenport Allotment.

On balance, we are of the view that the issue price of \$0.20 for the Avenport Allotment is fair to the Non-associated Shareholders. The proposed price is consistent with recent prices observed in market trading and falls within a range of values that can be derived from the projections provided by the Company.

We consider the other terms of the Avenport Allotment to be in line with normal commercial terms for a transaction of this nature.

2.5 Impact on Net Tangible Assets

Sealegs' NTA as at 31 March 2010 was \$5.3 million which equated to \$0.067 per share as at that date. Since then, the Company has issued 14,000,000 shares under the Original Allotment, raising a further \$2.8 million of fresh equity. The adjusted NTA (31 March 2010 NTA plus the Original Allotment) is \$8.1 million, equating to \$0.087 per share.

The Avenport Allotment will raise \$6.2 million. For illustrative purposes, if the net proceeds were added to the adjusted NTA, Sealegs' NTA would increase to \$14.3 million. Illustrative NTA per share would increase to \$0.116 per share.

2.6 Impact on Control

Share Capital and Shareholders

Sealegs currently has 93,090,190 ordinary fully paid shares on issue and 9,650,000 options.

The names, number of shares and percentage holding of the Company's ten largest shareholders as at 25 June 2010 are set out in section 4.7.

Shareholder Voting

Avenport currently holds 19.87% of the Company's shares and is the largest shareholder in Sealegs.

Interests associated with Sealegs' directors David McKee Wright, Maurice Bryham and William Burrell respectively hold 7.86%, 6.02% and 1.79% of the Company's shares. We are advised that Mr McKee Wright, Mr Bryham and Mr Burrell are not deemed to be associates of Avenport, as defined in the Code or the NZSX Listing Rules.

The Avenport Allotment will result in Avenport holding 39.89% of the Company's shares.

Avenport currently has the ability to influence the blocking of special resolutions (which require the approval of 75% of the votes cast by shareholders).

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

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

While a 19.87% interest is technically not sufficient to block a special resolution, in reality, it most likely is in a listed company with more than 2,500 shareholders (as Sealegs currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 19.87% interest increases.

The allotment of shares to Avenport will ensure that Avenport can singlehandedly block special resolutions.

At present no single shareholder can control the outcome of an ordinary resolution (greater than 50% of votes cast) or a special resolution. This position will not change if the shares are allotted to Avenport under the Avenport Allotment.

However, the Avenport Allotment will increase Avenport's ability to singlehandedly pass (or block) ordinary resolutions. Again, while a 39.89% interest is technically not sufficient to pass an ordinary resolution, in reality, it may well be in a listed company with more than 2,500 shareholders.

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

Given the above, we are of the view that the allotment of shares to Avenport under the Avenport Allotment will significantly increase Avenport's ability to exert shareholder control over Sealegs.

We note that Sealegs has on issue 9,500,000 options held by certain executive directors and senior management. All the options are currently in the money. For illustrative purposes, if all the options were exercised and there were no other changes to the Company's capital structure, Avenport's shareholding would reduce from 39.89% to 37.05%.

Board Control

As stated in section 4.3, the Company has four directors, none of whom are deemed to be associates of Avenport or Mr Series.

We are advised by the directors that following the Avenport Allotment, Avenport will be granted one seat on the Company's board of directors. This will be filled by Mr Series. He will be elected the chairman of the Sealegs board.

As well as being a director of Avenport, Mr Series is currently the chairman of Raffles Royal Monceau Hotel and a director of the Majestic Hotel Group in Cannes, France, the Peninsula Paris, the Raffles Fairmont Hotel Group and Bramer Banking Corporation in Mauritius.

Operations

We are advised by the directors that Avenport currently does not have any influence over the operations of the Company. The impact on the Company's operations arising from the increase in Avenport's shareholding will mainly be through its board of directors representation and the international connections and contacts that Avenport will be able to provide in the markets in which it operates such as France, the United Kingdom and Qatar. The Company's directors view the Avenport contacts as being very important to accelerating the Company's growth in new markets.

2.7 Dilutionary Impact

The Avenport Allotment will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 25%.

Dilutionary Impact on Non-associated Shareholders			
	No. of Shares		
	Current	Avenport Allotment	Post Avenport Allotment
Avenport	18,500,000	31,000,000	49,500,000
Non-associated Shareholders	74,590,190	-	74,590,190
Total	93,090,190	31,000,000	124,090,190
Dilutionary impact			25%

By way of example, a Non-associated Shareholder holding 1,000,000 shares currently holds a 1.07% interest in the Company. This interest will be diluted by 25% down to 0.81% following the Avenport Allotment.

However, given that the Avenport Allotment issue price of \$0.20 per share is in line with the current share price, the value of the Non-associated Shareholders' investment in the Company is unlikely to be diluted. In other words, the issue price of \$0.20 per share should ensure that there is no value transfer from the Non-associated Shareholders to Avenport. Ultimately, the question of any value transfer is likely to be of greater importance to the holders of small minority parcels than the dilution in their proportionate voting interest.

We do not consider the dilutionary impact of the Avenport Allotment to be a negative aspect for Non-associated Shareholders.

2.8 Impact on Share Price and Liquidity

Share Price

Details of the Original Allotment were announced on 24 May 2010. Sealegs' closing share price on that date was \$0.20. Since then, 794,690 shares (0.9%) have traded at a VWAP of \$0.23.

We consider the Avenport Allotment is unlikely to have a material effect (either positive or negative) on the Company's share price in the near term as the subscription price under the Avenport Allotment is \$0.20 per share which is the same subscription price as under the Original Offer and is broadly in line the current share price.

Liquidity

The average volume of shares traded each month since 3 January 2008 has been approximately 1.1% of the shares on issue.

The size of the pool of shares held by the Non-associated Shareholders will not change as a result of the Avenport Allotment.

In our view, the issue of the Avenport Allotment in itself is unlikely to have a positive or negative effect on the liquidity of Sealegs' shares.

2.9 Benefits and Disadvantages to Non-associated Shareholders

Key Benefits

The key benefit to the Non-associated Shareholders of the Avenport Allotment is that it provides the Company with \$6.2 million of fresh equity to apply towards the Company's global growth initiatives.

The Avenport Allotment also further signals Avenport's confidence in the future prospects of Sealegs.

Main Disadvantages

The main disadvantage is that the Avenport Allotment will increase Avenport's shareholding in the Company from 19.87% to 39.89%, thereby significantly increasing Avenport's ability to control the outcome of shareholder voting while the Non-associated Shareholders' shareholdings will be diluted by 25%.

May Reduce the Likelihood of a Takeover Offer from Avenport

As long as Avenport holds more than 20% and not more than 50% of the voting rights in the Company, it cannot increase the level of its shareholding unless it complies with the provisions of the Code. It will only be able to acquire more shares in the Company if:

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

Avenport is seeking to increase its shareholding from 19.87% to 39.89% by way of shareholder approval. Assuming the Avenport Allotment is approved, Avenport will not be able to increase its shareholding beyond 39.89% unless it complies with the provisions of the Code.

We are not aware of any intention on Avenport's part to make a takeover offer. However, if it did have such intent, an increase in its shareholding from 19.87% to 39.89% may reduce the likelihood of a takeover offer for the Company from Avenport as it may consider that it has sufficient control over the Company.

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

Likelihood of Other Takeover Offers May Reduce

Any bidder looking to fully take over the Company would need to ensure that Avenport would accept its offer, irrespective of whether it held 19.87% or 39.89% of the shares in the Company.

In the event that a bidder made a partial takeover offer for (say) 50.1% of the Company, the increase in Avenport's voting rights to 39.89% would technically still be insufficient to prevent a successful partial takeover at that level of control.

However, the bidder would most likely need to ensure that Avenport would accept its offer (or at least accept the offer in respect of some of its shares), irrespective of whether it held 19.87% or 39.89% of the shares in the Company, so as to ensure the success of the offer.

In our view, the increase in Avenport's shareholdings from 19.87% to 39.89% may reduce the attraction of Sealegs as a takeover target to other parties, but the impact is unlikely to be significant.

Benefits Outweigh Disadvantages

On balance, given the Company's need for further capital to fund its growth initiatives, we are of the view that the key benefits outweigh the main disadvantages.

2.10 Implications of the Resolution not Being Approved

In the event that the resolution is not approved, then Sealegs will not have sufficient funds to execute its growth plans. This means that certain growth initiatives will not be able to be pursued in the planned timeframes and / or Sealegs may need to undertake alternative capital raising initiatives such as a rights issue or other share placements. Limitations on the Company's ability to continue its planned expansion may lead to downward pressure on Sealegs' share price if the market develops doubts that projected revenue and earnings growth will be achieved.

2.11 Voting For or Against the Resolution

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

3. Evaluation of the Fairness of the Avenport Allotment

3.1 Basis of Evaluation

NZSX Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the proposed issue are *fair* to the Non-associated Shareholders.

There is no legal definition of the term *fair* in New Zealand in either the NZSX Listing Rules or in any statute dealing with securities or commercial law.

We are of the view that an assessment of the merits of a transaction is a broader test than the fairness of the transaction and encompasses a wider range of issues associated with the transaction. The assessment of the merits of the allotment of shares under the Avenport Allotment must consider the fairness of the likely increase in effective control by Avenport in Sealegs as well as the fairness of the terms and conditions of the Avenport Allotment.

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

3.2 Evaluation of the Fairness of the Avenport Allotment for the Purposes of NZSX Listing Rule 1.7.2

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Avenport Allotment are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.10. In summary, the key factors leading to our opinion are:

- the rationale for the Avenport Allotment is sound. Sealegs requires additional capital to fund its growth initiatives which are projected to significantly increase its revenue and earnings
- alternative capital raising options to the Avenport Allotment are limited and are unlikely to provide the same level of capital within a similar timeframe
- the terms of the Avenport Allotment are reasonable
- the Avenport Allotment will have a positive impact on the Company's NTA
- the Avenport Allotment will significantly increase Avenport's ability to influence the outcome of shareholder voting
- Avenport will be granted a single seat on the Sealegs' board of directors along with the role of chairman
- the dilutionary impact of the Avenport Allotment on Non-associated Shareholders will be in the vicinity of 25%
- the Avenport Allotment is unlikely to have any material impact on Sealegs' share price or the liquidity of its shares in the near term
- the Avenport Allotment may reduce the attraction of Sealegs as a takeover target to a minor degree

- the implications of the Avenport Allotment not being approved by the Non-associated Shareholders are that Sealegs will not have sufficient funds to fully execute its growth plans. Alternative capital raising initiatives will need to be undertaken but there is no guarantee that such initiatives will deliver the level of capital sought or provide capital within the desired timeframes.

3.3 Voting For or Against the Resolution

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

4. Profile of Sealegs

4.1 Background

The Company was originally incorporated under the name Thames Securities Limited on 16 July 1987. Since then it has gone through the following name changes:

- Paladian Securities New Zealand Limited (on 28 March 1988)
- Iddison Group Vietnam Limited (on 17 August 1992)
- Iddison Limited (on 14 May 1998)
- IT Capital Limited (**IT Capital**) (on 1 December 1998)
- Sealegs Limited (on 24 December 2003).

Sealegs (known as Iddison Group Vietnam Limited at the time) was listed on the NZSX in October 1994 following the public issue of 7,500,000 shares at an issue price of \$0.75 per share.

The Company's purpose at that time was as an investment and development company focused on Vietnam. The Company's Vietnamese investments focused on three industries - building products, food/agriculture and gold exploration and prospecting. The Company also had an investment in the Saigon Water Park which was sold in 1997.

In April 1999, the Company was restructured as a technology investment venture capital fund and became IT Capital. It invested in eight technology businesses between May 1999 and April 2001 and exited out of the investments by July 2004.

In August 2002, the Company acquired a 70% interest in Sealegs International Limited (**SIL**) from interests associated with Mr McKee Wright and Mr Bryham. The remaining shares in SIL were acquired in September 2003.

The table below summarises the main events in Sealegs' history.

Key Events in Sealegs' History	
Date	Event
Jul 1987	Company established
Oct 1994	Iddison Limited listed on NZSX issuing 7,500,000 shares at \$0.75 per share
Apr 1999	Company restructured to a technology investment venture capital fund
May 1999	First technology investments (exo-net and Tunes.com)
Aug 2002	70% of shares in SIL purchased
Sep 2003	Remaining 30% of shares in SIL purchased
Apr 2004	Sale of first amphibious boat
Jul 2004	Sale of last technology investment (Deep Video Imaging)
Jun 2005	Sealegs breaks the world record for crossing the English Channel in an amphibious vehicle
Jan 2007	Sealegs ships its 100 th amphibious boat to a customer in Australia
Dec 2007	Sealegs' amphibious 6.1m Rigid Inflatable Boat (RIB) establishes a new world record for fastest on-water speed by an amphibious vehicle
Mar 2009	Sealegs boats obtain US Coast Guard and Canadian regulatory approval
Mar 2010	Maiden operating profit of \$0.6 million

4.2 Nature of Operations

Sealegs has developed a boat with motorised and retractable wheels that is able to be driven into and out of the water. The initial concept was developed by Mr Bryham.

There are three amphibious boats currently in production:

- 6.1m RIB
- 6.1m D-tube
- 7.1m RIB.

The amphibious boats are manufactured in a 3,000 m² factory in Auckland's North Shore Industrial Estate by a staff of 35 people.

The amphibious boats can reach up to 10 km/h on land and 30 to 35 knots on the water.

The Company's research and development is currently focussed on developing new boats such as a cabin boat and a 9.5m boat.

The main sectors that the Company targets are:

- the recreation market
- the rescue market for flood rescue and civil defence-type applications
- the professional market (for example for use as water taxis, fish farming, tour operators).

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

Approximately three quarters of production is exported. Key export markets include:

- Australia
- Middle East
- Malaysia
- United Kingdom
- United States.

4.3 Directors

The directors of Sealegs are:

- Maurice Bryham
- Chris Dickson
- James Hill, chairman
- David McKee Wright, managing director.

4.4 Financial Performance

Summary of Sealegs Financial Performance				
	Year to 31 Mar 07 (Audited) \$000	Year to 31 Mar 08 (Audited) \$000	Year to 31 Mar 09 (Audited) \$000	Year to 31 Mar 10 (Audited) \$000
Revenue	5,006	9,615	11,552	11,375
EBITDA	(958)	(187)	(600)	873
EBIT	(1,021)	(340)	(840)	637
NPAT	(1,039)	(1,708)	(5,760)	407
Revenue growth p.a.		92.1%	20.2%	(1.5%)
EPS (cents)	(1.8)	(2.7)	(7.6)	0.5

EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax
NPAT: Net profit after tax
EPS: Earnings per share

Source: Sealegs audited financial statements

The loss of \$1.7 million in the 2008 financial year was the result of adopting International Financial Reporting Standards (**IFRS**) and recording costs relating to the management and staff option plan. IFRS required options to be valued and expensed resulting in a charge to the income statement of \$1.4 million.

In the 2009 financial year, the share option scheme was cancelled resulting in a charge of \$3.1 million. In addition, a review of the carrying values of capitalised development and goodwill was undertaken resulting in an impairment charge of \$1.7 million.

The profit in the 2010 financial year was a result of relatively steady revenue and gross margins combined with a 50% decrease in operating and cash expenses and a 94% decrease in non-cash expenses.

4.5 Financial Position

Summary of Sealegs Financial Position				
	As at 31 Mar 07 (Audited) \$000	As at 31 Mar 08 (Audited) \$000	As at 31 Mar 09 (Audited) \$000	As at 31 Mar 10 (Audited) \$000
Current assets	2,501	5,381	6,225	6,496
Non-current assets	1,077	2,033	1,326	1,457
Total assets	3,578	7,414	7,551	7,953
Current liabilities	(1,936)	(3,044)	(2,232)	(2,159)
Non-current liabilities	-	(141)	(303)	(204)
Total liabilities	(1,936)	(3,185)	(2,535)	(2,363)
Total equity	1,642	4,229	5,016	5,590

Source: Sealegs audited financial statements

Sealegs' main current assets are bank deposits, trade and other receivables and inventories. Its main non-current assets are property, plant and equipment. Current liabilities consist mainly of trade and other payables. Non-current liabilities represent finance lease liabilities.

4.6 Cash Flows

Summary of Sealegs Cash Flows				
	Year to 31 Mar 07 (Audited) \$000	Year to 31 Mar 08 (Audited) \$000	Year to 31 Mar 09 (Audited) \$000	Year to 31 Mar 10 (Audited) \$000
Net cash flow from/(used in) operating activities	(428)	(2,353)	(1,005)	518
Net cash used in investing activities	(340)	(1,109)	(595)	(427)
Net cash from/(used in) financing activities	<u>593</u>	<u>3,046</u>	<u>4,172</u>	<u>(615)</u>
Net increase/(decrease) in cash held	(175)	(416)	2,572	(524)
Opening cash balance	1,194	1,019	603	3,175
Closing cash balance	<u>1,019</u>	<u>603</u>	<u>3,175</u>	<u>2,651</u>

Source: Sealegs audited financial statements

The cash used in investing activities relates to the purchase of fixed assets each year and development costs incurred in the 2008 financial year. Cash from financing activities mainly represents proceeds from the issue of shares – \$2.9 million in the 2008 financial year and \$3.4 million in the 2009 financial year. Cash used in financing activities in the 2010 financial year relates to the repayment of finance leases and a bank loan.

4.7 Capital Structure and Shareholders

Ordinary Shares

Sealegs currently has 93,090,190 ordinary fully paid shares on issue held by 2,599 shareholders.

The names, number of shares and percentage holding of the ten largest shareholders as at 25 June 2010 are set out below.

Sealegs' Ten Largest Shareholders		
Shareholder	No. of Shares Held	%
Avenport	18,500,000	19.87%
McKee Wright Family Trust	7,320,000	7.86%
Bryham Family Trust	5,600,000	6.02%
Raphael Chaikin	4,801,000	5.16%
Brian Taylor	4,610,881	4.95%
Izard Investments Limited	3,153,628	3.39%
Hubbard Churcher Trust Management Limited	2,035,735	2.19%
Furzefield	1,669,269	1.79%
Accident Compensation Corporation	1,523,250	1.64%
Marco Kleyn	<u>1,389,900</u>	<u>1.49%</u>
Subtotal	50,603,663	54.36%
Others (2,589 shareholders)	<u>42,486,527</u>	<u>45.64%</u>
Total	<u>93,090,190</u>	<u>100.00%</u>

Source: NZ Data

Options

Sealegs' shareholders approved a share option scheme on 17 July 2009 for the issue of up to 10,650,000 options to certain executive directors and senior management. This followed the cancellation on 1 April 2009 of 12,000,000 executive share options that were issued in August 2007.

A total of 9,650,000 options were issued on 27 July 2009:

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

The options are in four tranches with staggered exercise periods and escalating trigger prices. Each option has a \$0.10 exercise price.

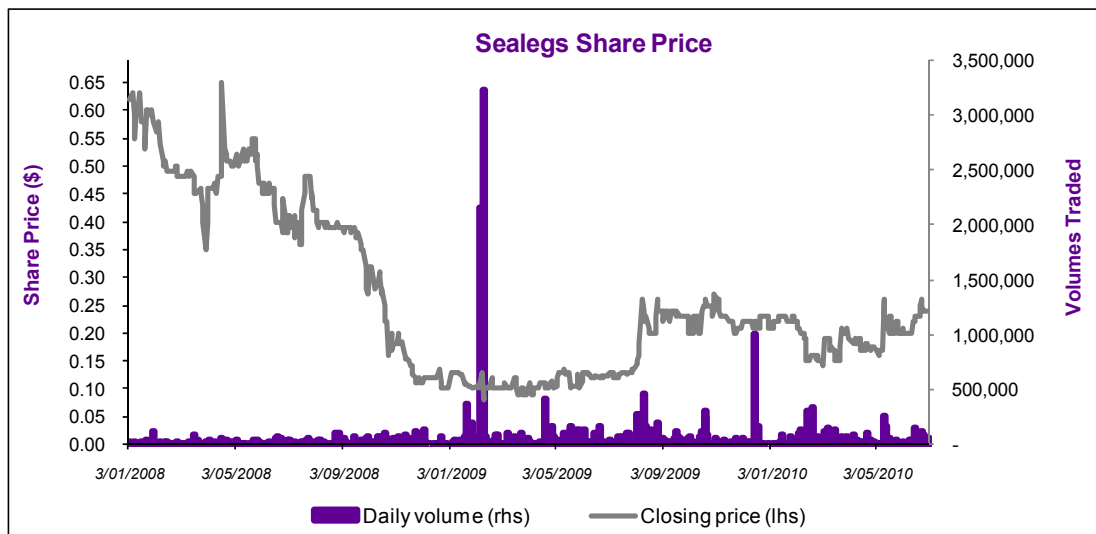
Sealegs Options				
Tranche	No. of Options	Exercise Period	Trigger Price	Exercise Price
(a)	2,412,500	30 June 2010 – 29 June 2014	\$0.12	\$0.10
(b)	2,412,500	30 June 2011 – 29 June 2014	\$0.14	\$0.10
(c)	2,412,500	30 June 2012 – 29 June 2014	\$0.17	\$0.10
(d)	2,412,500	30 June 2013 – 29 June 2014	\$0.20	\$0.10
	<u>9,650,000</u>			

Source: Sealegs

All the options are currently in the money as the trigger prices have been exceeded and the current share price is in excess of the exercise price.

4.8 Share Price History

Set out below is a summary of Sealegs' daily closing share price and daily volumes of shares traded from 3 January 2008 to 30 June 2010.



During the period, Sealegs' shares have traded between \$0.08 (on 10 February 2009) and \$0.65 (on 18 April 2008) at a VWAP of \$0.19.

Trading in the Company's shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) to 14 June 2010 (being the day before the terms of the Avenport Allotment were agreed) is set out below.

Sealegs Share Trading					
Period	Low ¹ \$	High ¹ \$	VWAP ¹ \$	Volume Traded ¹ (000)	Liquidity ¹
1 month	0.20	0.23	0.20	347	0.4%
3 months	0.15	0.18	0.20	1,591	2.0%
6 months	0.14	0.26	0.19	4,036	5.1%
12 months	0.12	0.29	0.20	10,847	13.7%
<i>¹ To 14 June 2010</i>					

616,952 shares have traded between 15 June 2010 and 30 June 2010 at a VWAP of \$0.24.

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

5.1 Sources of Information

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

- the draft notice of annual meeting
- the Sealegs annual reports for the years ended 30 June, 2008 to 2010
- the Sealegs 5 Year Projections
- the Original Allotment Subscription Agreement dated 14 May 2010
- the Avenport Allotment Subscription Agreement dated 21 June 2010
- share price data and shareholder data in respect of Sealegs from NZX Data and Capital IQ.

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

The Sealegs directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the Avenport Allotment that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

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

In our opinion, the information to be provided by Sealegs to the Non-associated Shareholders is sufficient to enable the Company's directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Avenport Allotment.

5.2 Reliance on Information

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

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

5.3 Disclaimer

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

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

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

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

5.4 Indemnity

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

6. Qualifications and Expertise, Independence, Declarations and Consents

6.1 Qualifications and Expertise

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

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

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

6.2 Independence

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

Simmons Corporate Finance has not had any part in the formulation of the Avenport Allotment or any aspects thereof. Our sole involvement has been the preparation of this report.

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

6.3 Declarations

An advance draft of this report was provided to the Company's directors for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Simmons Corporate Finance alone. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

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

6.4 Consents

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



Peter Simmons
Director

Simmons Corporate Finance Limited

1 July 2010