QUICKFLIX LIMITED
Independent Expert's Report

18 November 2016

Financial Services Guide

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BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (‘**we**’ or ‘**us**’ or ‘**ours**’ as appropriate) has been engaged by Jason Tracy and Richard Hughes of Deloitte Financial Advisory Pty Ltd who have been appointed as Joint and Several Deed Administrators (**‘Deed Administrators’**) of Quickflix Limited (**‘Quickflix’** or **‘the Company’**) to provide an independent expert’s report that provides a valuation of the shares of the Company as at 6 October 2016. You will be provided with a copy of our report as a retail client because you are a Shareholder of Quickflix.

Financial Services Guide
In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (‘**FSG**’). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us
BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide
We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice
We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive
We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately $23,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees
All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from the Deed Administrator for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals
We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution
Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('**FOS**'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details
You may contact us using the details set out on page 1 of the accompanying report.

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18 November 2016

Quickflix Limited (Subject to Deed of Company Arrangement)
C/o - Jason Tracy
Joint and Several Deed Administrator
Deloitte Financial Advisory Pty Ltd
Tower 2, Brookfield Place
Perth WA 6000

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 26 April 2016, the Directors of Quickflix Limited (Subject to a Deed of Company Arrangement) (**'Quickflix'** or the **'Company'**) resolved that the Company be placed into administration and that Dermott McVeigh, Wayne Rushton and Morgan Kelly of Ferrier Hodgson be appointed as Joint and Several Voluntary Administrators. On 6 May 2016, the first meeting of creditors was held pursuant to Section 436A of the Corporations Act 2001 (Cth) ('**Corporations Act**' or '**the Act**'). At this meeting, Jason Tracy and Richard Hughes of Deloitte Financial Advisory Pty Ltd replaced the First Administrators as Joint and Several Administrators (**'Administrators'**) pursuant to a resolution of creditors.

A second meeting of creditors was held on 4 October 2016 with creditors unanimously voting in favour of the Company executing a Deed of Company Arrangement (**'DOCA'**) with Karma Media Holdings LLC (**'Karma'**). The DOCA was executed on 6 October 2016 and Jason Tracy and Richard Hughes became the Deed Administrators **('Deed Administrators')** The DOCA contains a number of conditions with the ultimate outcome, upon satisfaction of these conditions, being that Karma or its authorised representatives will receive all of the shares of the Company in exchange for $1.3 million dollars being paid into a Deed Fund and the assumption of certain employee liabilities (**'DOCA Proposal'**).

Completion under the DOCA is conditional on a Court Order being made under section 444GA of the Corporations Act and relief from the Australian Securities and Investments Commission (**'ASIC'**) from the provisions of Chapter 6 of the Corporations Act being obtained.

ASIC has requested that the Company obtain an Independent Expert Report to opine on the value of the Company's equity in order for it to provide the relief sought and to assist shareholders and form a view as to whether to file a defence in relation to the application made by the Deed Administrators under section 444GA of the Corporations Act.

2. Summary and Opinion

2.1 Purpose of the report

The Deed Administrators have requested that BDO Corporate Finance (WA) Pty Ltd (‘**BDO**’) prepare an Independent Expert Report (‘**our Report**’) to express an opinion on the value of the shares of the Company as at 6 October 2016.

Our Report is prepared pursuant to ASIC’s request of the Deed Administrator and for the purposes of granting the waiver from Chapter 6 of the Corporations Act and will be provided to ASIC as well as the shareholders of the Company (‘**Shareholders**’).

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission (‘**ASIC**’) Regulatory Guide 111 ‘Content of Expert’s Reports’ (‘**RG 111**’) and Regulatory Guide 112 ‘Independence of Experts’ (‘**RG 112**’).

In arriving at our opinion, we have assessed the value of the shares of the Company as at 6 October 2016 on the follow basis:

- A going concern basis; and
- A liquidation basis.

We have also undertaken an analysis of other factors which we consider to be relevant to the Shareholders in their assessment of the DOCA.

2.3 Opinion

We have assessed the value of the shares of the Company as at 6 October 2016 under a liquidation basis and under a going concern basis with the results shown below:

	Ref	Value $
Valuation of the shares of the Company - Going concern basis	10.1	nil
Valuation of the shares of the Company - Liquidation basis	10.2	nil

Source: BDO analysis

We note that both valuation approaches above have resulted in the same conclusion as to the value of the shares of the Company as at 6 October 2016, being nil.

2.4 Other considerations

We have also highlighted some other matters that we consider may be appropriate for Shareholders in relation to the DOCA.

Section	Description
11.1	Comparison between the value of a Company share prior to the DOCA and the value Shareholders will receive if the DOCA is completed.
11.2	Alternative proposals available

3. Scope of the Report

3.1 Purpose of the Report

In accordance with the terms of the DOCA, the Deed Administrators have filed applications with ASIC and the Supreme Court of Western Australia seeking relief from the provisions of Chapter 6 of the Corporations Act and an Order that the Deed Administrators be granted leave to transfer the shares of the Company to Karma respectively. As part of that process, ASIC has requested that the Company obtain a report from an independent expert to opine on the value of the Company's equity for the benefit of Shareholders.

Our Report is prepared pursuant to ASIC's request of the Deed Administrators and for the purposes of granting the waiver from Chapter 6 of the Corporations Act.

3.2 Regulatory guidance

In our approach to the valuation methodology adopted we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the DOCA is a control transaction as defined by RG 111 as Karma will acquire 100% of the shares in the Company. We have therefore assessed the DOCA as a control transaction and performed our valuation of the Company's equity on a control basis.

3.3 Adopted basis of evaluation

RG 111 states that an expert should use its skill and judgement to select the most appropriate methodology or methodologies in its report. The expert must have a reasonable (or tenable) basis for choosing its valuation methodologies. An expert should, when possible, use more than one valuation methodology as this reduces the risk that the expert's opinion is distorted by its choice of methodology. An expert should also compare the figures derived from using the different methodologies and comment on any differences.

Having regard to the above, BDO has completed this valuation in two parts:

- A valuation of the shares of the Company as at 6 October 2016 on a going concern basis and on a liquidation basis (refer Section 10 'Valuation of Quickflix'); and

- An investigation into other significant factors to which Shareholders might give consideration, after reference to the value derived above (refer Section 11 'Other considerations').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('**APES 225**').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the DOCA

On 26 April 2016, the Directors of Quickflix Limited (Subject to a Deed of Company Arrangement) ('**Quickflix**' or the '**Company**') resolved that the Company be placed into Administration and that Dermott McVeigh, Wayne Rushton and Morgan Kelly of Ferrier Hodgson be appointed as Joint and Several Voluntary Administrators.. On 6 May 2016, the first meeting of creditors was held pursuant to Section 436A of the Corporations Act. At this meeting, Jason Tracy and Richard Hughes of Deloitte Financial Advisory Pty Ltd replaced the First Administrators as Administrators pursuant to a resolution of creditors.

The Administrators received a DOCA proposal from Karma, a US based entity which is independent of the Company, under which Karma would pay $1.3 million into a Deed Fund and assume certain liabilities in exchange for receiving 100% of the shares in the Company. The DOCA included the following:

- Effectuation of the DOCA is conditional on the following:
    1) Creditors approving the DOCA at a properly convened meeting of creditors of the Company at which point a $200,000 refundable deposit partially paid by Karma into a trust account will become non-refundable and be paid into the Deed Fund together with the balance of the deposit. This amount has been received in full as at the date of this Report; and
    2) Karma making a further $700,000 non-refundable payment to the Deed Fund within 30 days of DOCA execution. This amount has been received in full as at the date of this Report; and
    3) An Order being made by the Court under Section 444GA of the Corporations Act, along with relief from ASIC from the requirements of Chapter 6 of the Corporations Act, to transfer all of the Company's shares to Karma. These matters are to be achieved within 120 days of the creditors approving the DOCA or such longer period as agreed between the Deed Administrators and Karma; and
    4) Karma making a final non-refundable payment of $400,000 to the Deed Fund within 5 days of the Court Order made under Section 444GA of the Corporations Act or the relief from ASIC from the requirement of Chapter 6 of the Act (whichever is the latter).
- Upon effectuation of the DOCA, a Creditors' Trust will be established and the Deed Fund (after payment of the Deed Administrators' and First Administrators' approved fees, costs and expenses) will be transferred to the Trust Fund for the purpose of paying a dividend to admitted creditor claims in accordance with Section 556 of the Act.

- In the event that either a Court order under Section 444GA of the Act or relief from ASIC from the requirements of Chapter 6 of the Act is not obtained within 120 days of the creditors approving the DOCA or such longer period as agreed between the Deed Administrators and Karma, then the following will occur:
    1) A Business Sale will be entered into by the Deed Administrators and Karma (or its nominee) resulting in the sale of the Company's business and assets for consideration of $900,000 already paid by Karma
    2) The Deed Administrators will convene a meeting of creditors of the Company to consider options including that:
        - The Company execute a new DOCA;or
        - the Company be wound up.

A second meeting of creditors was held on 4 October 2016 with creditors unanimously voting in favour of the Company executing a DOCA with Karma. The DOCA was executed on the 6 October 2016.

As disclosed above, one of the conditions of the DOCA is an Order being made by the Court under Section 444GA of the Corporations Act. In accordance with the terms of the DOCA, the Deed Administrators have filed an application with the Supreme Court of Western Australia seeking an Order that the Deed Administrators be granted leave to transfer all of the shares in the Company to Karma.

Another condition relates to relief from ASIC from the requirement of Chapter 6 of the Corporations Act. In accordance with the terms of the DOCA, the Deed Administrators have filed an application with ASIC seeking relief from the provisions of Chapter 6 of the Corporations Act. As part of that process, ASIC has requested that the Company obtain a report from an independent expert to opine on the value of the Company's equity and that this report be made available to ASIC as well as the Shareholders of the Company.

5. Profile of Quickflix Limited

5.1 History

Quickflix owns a business that operates a movie and TV streaming service in Australia and New Zealand. The Company has two operating business units.

- A subscription and transactional streaming business where customers can subscribe to stream from a selection of subscription movies and TV shows direct to their TV's, laptops, smartphones and other devices.
- A DVD and Blu-ray rental subscription service where discs are delivered to customers' letterboxes throughout Australia.

The Company began trading as a DVD and Blu-ray distribution business in 2003 and listed on the ASX in June 2005.

On 26 April 2016, the Directors of Quickflix Limited resolved that the Company be placed into Administration and that Dermott McVeigh, Wayne Rushton and Morgan Kelly of Ferrier Hodgson be appointed as Joint and Several Voluntary Administrators. On 6 May 2016, the first meeting of creditors was held pursuant to Section 436A of the Corporations Act 2001. At this meeting, Richard Hughes and Jason Tracy of Deloitte Financial Advisory Pty Ltd replaced the First Administrators as Joint and Several

Administrator pursuant to a resolution of creditors. Jason Tracy and Richard Hughes in there capacity as Joint and Several Administrators, took control of the Company and took the necessary steps to safeguard the Company's assets in order to try and achieve the best return for the creditors.

5.2 Historical Balance Sheet

Statement of Financial Position	Unaudited as at 30-Apr-16 $'000	Unaudited as at 30-Jun-15 $'000	Audited as at 30-Jun-14 $'000	Audited as at 30-Jun-13 $'000
ASSETS				
Cash	914	819	2,226	2,203
Receivable	151	220	58	306
Prepaid- Studio Content	94	462	441	237
Prepaid- Other	65	99	248	154
Other Assets	32	78	159	309
Other financial assets	349	349	606	372
Tax Assets	-	-	-	-
Property, Plant and Equipment	403	1,676	2,583	3,384
Intangible Assets	-	-	3,235	3,444
TOTAL ASSETS	2,008	3,703	9,556	10,409
LIABILITIES				
Credit cards	9	-	(4)	(9)
Trade Creditors	2,017	5,972	5,803	2,440
Other Creditors	1,251	3,043	2,674	1,328
Unearned Income	369	833	-	961
Provisions	500	566	538	597
Borrowings	(195)	(400)	(400)	515
Payroll Liabilities	106	100	72	184
Preference Share Liability	11,731	11,272	10,726	10,409
Tax Liabilities	392	36	152	145
TOTAL LIABILITIES	16,180	21,420	19,561	16,570
NET ASSETS	(14,172)	(17,717)	(10,005)	(6,161)
EQUITY				
Contributed equity	46,507	46,420	41,553	35,496
Retained Earnings	(60,679)	(64,137)	(51,558)	(41,658)
TOTAL EQUITY	(14,172)	(17,717)	(10,005)	(6,162)

Source: Quickflix Australia audited financial statements for years ended 30 June 2013 and June 2014. Unaudited management accounts for year ended June 2015 and period ended April 2016.

We have not undertaken a review of Company's unaudited management accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information, however nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis. Refer Section 10 for further discussion regarding the Company's unaudited accounts.

- We note that the auditors issued an unqualified opinion in relation to the financial statements for the years ended June 2013 **('FY13')** and June 2014 **('FY14')**, however an emphasis of matter on going concern was issued for both years. The audit opinion on the financial report was given for the consolidated accounts of Quickflix Australia ("Quickflix Aus") and Quickflix New Zealand ("Quickflix NZ"). We note that for the purposes of this report we have only considered the parent entity Quickflix Australia, however per review of the consolidated financial statements, we noted that Quickflix New Zealand, was both in a net loss making position and net asset deficiency position for FY13 and FY14.

- For the financial year end 30 June 2013 the auditor noted the Company had incurred a net loss of $6,080,868 and had a net asset deficiency of $6,321,182.The auditor concluded that the Company's ability to continue as a going concern depended on its ability to raise funds via share placement, debt conversion and underwritten rights issue. These conditions, along with other matters indicated the existence of a material uncertainty around the Company's ability to continue as a going concern.
- For the financial year ended 30 June 2014 the auditor noted that the Company had incurred a net loss of $9,580,366, and had a deficiency of net assets of $9,844,402. The auditor concluded that the Company's ability to continue as a going concern depended on its ability to raise further capital in the next twelve months to fund operation and investment activities. These conditions, along with other matters indicated the existence of a material uncertainty around the Company's ability to continue as a going concern.
- We note that during the financial year end 30 June 2015 (**'FY15'**) and 30 June 2016 (**'FY16'**), the Company did not submit an audited annual report.
- The Company fully amortised its intangible assets during FY15. This appears reasonable given the Company was in a loss making position and therefore the carrying value of the intangible assets are no longer deemed to be recoverable.
- Property, Plant and Equipment also decreased sharply over the periods listed above. This was a result of accelerated depreciation on the Company's DVD assets.
- The preference share liability relates to redeemable preference shares held by Stan Entertainment Pty Ltd (**'Stan'**). Stan had the option to call for redemption of the preference shares at any point in time, and hence in the financial statements the liability has been recorded as current.

5.3 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Unaudited for the period ended 30-Apr-2016 $'000	Unaudited for the year ended 30-Jun-15 $'000	Audited for the year ended 30-Jun-14 $'000	Audited for the year ended 30-Jun-13 $'000
Income				
Sales	-	-	-	13
Subscription Income	9,688	15,870	16,625	18,258
Other Income	188	325	213	316
Currency gain(loss)	(61)	(79)	(80)	(22)
Total Income	**9,815**	**16,116**	**16,758**	**18,565**
Cost of Sales	439	(11,217)	(11,444)	(11,648)
Add back content provider write offs	(4,675)	-	-	-
Gross Profit	**5,579**	**4,899**	**5,314**	**6,917**
Expenses				

Technology	(2,348)	(3,525)	(3,126)	(2,080)
General and Administration	(2,924)	(6,384)	(6,631)	(5,471)
Employee Expenses	(310)	(551)	(266)	(647)
Content and Publishing	(497)	(484)	(261)	(597)
Retention	(4)	(55)	(34)	(50)
Total Expenses	**(6,083)**	**(10,999)**	**(10,318)**	**(8,845)**
EBITDA	**(504)**	**(6,100)**	**(5,004)**	**(1,928)**
Other Expenses	(356)	(408)	36	15
Interest Income	16	44	61	77
Interest Expense	(10)	(9)	(456)	(569)
Income Tax Revenue	619	593	901	1,607
Depreciation Expense	(1,607)	(2,332)	(2,744)	(3,489)
Amortisation Expense	-	(4,059)	(2,375)	(1,793)
Net Profit/(Loss)	**(1,842)**	**(12,271)**	**(9,581)**	**(6,080)**

Source: Quickflix audited financial statements for years ended 30 June 2013 and June 2014. Unaudited management accounts for year ended June 2015 and period ended April 2016.

We note the following in relation to the Company's historical statement of profit or loss and other comprehensive income:

- The Company made increasing EBITDA losses between FY13 and FY15. This was mainly due to declines in customer revenue and subscriptions. This also coincided with an increase in larger international competitors such as Stan and Netflix entering the market and competing with Quickflix.
- It was also noted that fixed costs remained high particularly in relation to labour and content, which adversely impacted the Company's margins.
- The Company made a loss for the year to date 30 April 2016 **('YTD16')** however this was not as significant as previous years due to cost cutting measures applied by the Directors. One of the major cuts implemented by the Directors was reduce marketing expenses, which was recorded in General and Administration expenses. Marketing expenses were reduced by approximately $3.3million in FY15 to $1.1million in YTD16. The reduction in marketing spend however also contributed significantly to falling subscriptions income.

5.4 Capital Structure

The capital structures shown below are as at 26 April 2016, being the date the Company was placed into Voluntary Administration.

5.4.1. Ordinary Shares

The share structure of Quickflix as at 26 April 2016 is outlined below:

	Number
Total ordinary shares on issue	2,218,490,654
Top 20 shareholders	603,039,251
Top 20 shareholders - % of shares on issue	27.18%

Source: Share register as at 26 April 2016

The ordinary shares held by the most significant Shareholders as at 26 April 2016 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Chifley Portfolios Pty Limited	75,000,000	3.38%
Sked Pty Ltd	73,000,000	3.29%
HSBC Custody Nominees	55,026,610	2.48%
Mr Gerhard Limnios	50,000,000	2.25%
Subtotal	253,026,610	11.41%
Others	1,965,464,044	88.59%
Total ordinary shares on Issue	**2,218,490,654**	**100.00%**

Source: Share register as at 26 April 2016

5.4.2. Redeemable Preference Shares

The Company has approximately 83.3 million Redeemable Preference Shares (‘**RPS**’) on issue. In 2012, the Company entered into a content licencing agreement with Home Box Office Inc. (‘**HBO**’) which was followed by an investment agreement whereby HBO invested $10 million in the Company in exchange for 83.3 million RPS at a price of $0.12 per share which are convertible to ordinary shares in the Company.

The RPS have since been transferred to Stan which is the current holder and who operates in direct competition to the Company.

5.4.3. Options

The Company had the following options on issue as at 26 April 2016:

	Number
Director options exercisable at $0.22 on or before 3 June 2016*	36,500,000
Options exercisable at $0.0302 on or before 8 March 2018	42,215,251
Options exercisable at $0.00 on or before 31 October 2018	51,209,657

*We note these options have expired as at the date of this Report

Source: Appendix 3B released on the ASX on 19 April 2016

6. Profile of Karma Media Holdings LLC

Karma is a US based company. Karma is a special purpose vehicle for entrepreneur Erik Pence. Erik Pence will lead Quickflix as the Managing Director and will bring over 25 years of experience in the media and entertainment industry, particularly in relation to TV production and mass media and distribution expertise.

The Report to Creditors dated 22 September 2016 explains that the Company will continue to trade in the Australian market, with the majority of employees expected to be retained and those that have been laid off receiving their full entitlements. Unsecured creditors will receive up to 21.5c per dollar owed to them under the DOCA.

Karma’s ongoing funding strategy for Quickflix also makes available $700,000 for the Company, which will be used to support ongoing operations and execute Karma’s post-administration planning, as they aim their strategy towards entering into niche markets and revitalising the Company. The deal will see Karma pay $1.3million dollars into the deed fund.

7. Economic analysis

The Australian economy is continuing to grow at a moderate rate. The large decline in mining investment is being offset by growth in other areas including residential construction, public demand and exports. Although household consumption has been growing at a reasonable pace, it appears to have slowed down over recent times. Measures of household and business sentiment remain above average.

There is considerable variation in employment growth across the country although, overall, the unemployment rate has fallen further. Growth in part-time employment has been positive, while growth in full-time employment has been subdued.

The inflation rate remains low in Australia and this is expected to remain the case for some time given very subdued growth in labour costs and very low cost pressures elsewhere in the world.

Financial markets

Financial markets have continued to function effectively. Funding costs for high-quality borrowers remain low and monetary policy around the globe remains accommodative. Government bond yields have begun to rise however they are coming off a very low base.

Interest rates

Low interest rates are supporting domestic demand. Supervisory measures have strengthened lending standards in the housing market although growth in lending for housing has slowed over the past year. Turnover in the housing market has also declined and the rate of increase in housing prices is lower than it was a year ago. Some markets have strengthened recently but an influx of apartments onto the property market is expected over the next couple of years, particularly in the eastern capital cities. Growth in rents is the slowest for some decades. The cash rate remains unchanged at 1.50%.

Australian dollar

The Australian dollar has appreciated recently, despite its noticeable declines against the US dollar over the past year and could do even further depending on the reaction to the outcome of the recent US election. This in part reflects rises in commodity prices, along with monetary developments globally having a positive impact. Due to current economic circumstances, a strengthening exchange rate could complicate the adjusting economy.

Source: www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 1 November 2016.

8. Industry analysis

The industry includes a multitude of small companies that individually account for less than 5.0% of industry revenue. This is largely attributed to the industry's low barriers to entry, which have enabled a high number of small firms to enter niche markets. Given the borderless nature of the internet, the industry is affected by the increasing dominance of global technology companies such as Facebook and Google, but these companies are not included in the industry as they operate offshore. The most notable domestic competitors in the industry are Stan, Presto and Netflix.

One revenue stream of Quickflix is the DVD and Blu-ray rental subscription service where Quickflix is engaged in the hire of pre-recorded video DVDs, HD Blu-ray products and games for personal use only. Due to the increase in online streaming and internet television, this business has become disrupted.

The streaming business is in the industry where companies publish or broadcast content on the internet. Industry operators provide textual, audio and video content of general or specific interest on the internet.

The best Company comparison of Quickflix Australia would be US- based publicly listed company Netflix. Like Quikflix, Netflix originally made its name as a DVD and rental provider, however the company is now primarily an online video streaming provider, distributing content through its web and app platforms. Netflix is in the process of an aggressive global expansion, which included entering Australia in March 2015. The company's strong brand recognition enabled a rapid uptake of Netflix subscriptions upon its entrance to Australia, particularly because a large number of Australians had already subscribed to Netflix in the United States. Following its introduction to Australia, Netflix increased its global footprint by 130 countries in January 2016, to reach 190 countries overall. Netflix has also been able to attract further subscribers by being able to exclusively offer content that it has produced itself. As at April 2016, Netflix is reported to have over 81 million subscribers worldwide.

As Quickflix attempted to keep pace with the likes of Netflix, it was noted that the Company needed to expand its streaming service, however profitability declined owing to streaming content license costs and marketing initiatives that were aimed to try and boost its customer base. In April 2016, Quickflix's Australian based streaming service went into Voluntary administration, as competition from Netflix, Presto and Stan placed intense pressure on the Company's profitability. The Company also had an $11 million dollar preference share liability. The effect of this is that any ordinary shareholders rank behind preference shareholders in relation to dividend payments and capital returns which adversely affected the Company's ability to raise further capital.

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('**FME**')
- Discounted cash flow ('**DCF**')
- Quoted market price basis ('**QMP**')
- Net asset value ('**NAV**')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. Our Report is required pursuant to ASIC's request of the Deed Administrator for the purposes of granting the waiver from Chapter 6 of the Corporations Act. We have been instructed to undertake a valuation of the shares of the Company as at 6 October 2016 and that valuation should be made on the following separate basis:

- Going concern basis; and
- Liquidation basis.

Our approach to the valuation methodology should be consistent with ASIC's RG 111 and RG 112.

9.1 Valuation of the shares of the Company - Going concern basis

Under the 'going concern' basis of accounting the assumption is that the entity is a going concern and will continue its operations for the foreseeable future. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Company, in its current state, would not be deemed a 'going concern' as it is currently subject to external administration and could not sustain trading without further capital being raised which is not possible due to its suspension from the ASX and that it is currently in external administration. However, for the purposes of this Report and our instructions from the Deed Administrator we will value the Company as if it is able to realise its assets and discharge its liabilities in the normal course of business and our valuation methodology will be consistent with RG 111.

In our assessment of the value of the shares of the Company on a going concern basis we have chosen to employ the following methodologies:

- NAV methodology

We have chosen this methodology for the following reasons:

- For the QMP methodology to be considered relevant, a company's shares must be listed on a regulated and observable market where the company's shares can be traded. Quickflix listed on the ASX on 27 June 2005 however its shares were voluntarily suspended on 31 August 2015 and at all times since this date. The QMP methodology is not relevant to consider as there has been no trading in the Company's shares since 31 August 2015;
- The DCF methodology is particularly applicable to businesses with limited lives, experiencing growth and that are in the start-up phase, with irregular cash flows. The DCF methodology has not been considered appropriate as we have not been provided with suitable or extended cash flows. We also do not consider that we would have reasonable grounds, under RG 111, based on the Company's historical performance to consider the DCF approach;
- The FME methodology is most commonly applicable to profitable businesses with relatively steady growth histories and forecasts. The FME methodology has not been considered appropriate given that the Company has been operating at a loss for the most recent historical periods. This implies that we do not have a reasonable basis to assess future maintainable earnings of the Company; and
- A market based assessment is not preferred as there are no directly comparable transactions available that can be directly applied to assess the value of Company. We have also been advised that prior to the DOCA the Administrators undertook a sale process prior to the second meeting of creditors which lead to the DOCA proposal from Karma. This is discussed further in Section 11.2.

The NAV methodology has therefore been considered as the only appropriate valuation methodology to undertake in order to value the shares of the Company on a going concern basis. All assets and liabilities of the entity are valued at market value under this methodology and this combined market value forms the basis for the entity's valuation. Under this basis we assume a knowledgeable and willing, but not anxious, seller acting at arm's length. No realisation costs are taken into account under this approach.

9.2 Valuation of the shares of the Company - Liquidation basis

Under the liquidation basis of accounting, assets and liabilities are measured at their liquidation value. The liquidation value of assets is their net realisable value. Net realisable value is based on the proceeds receivable on disposal less restructure and liquidation costs. The liquidation value of liabilities is their expected settlement amount. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities.

In our assessment of the value of the shares of the Company on a liquidation basis we have chosen to employ the following methodology:

- NAV methodology.

We have chosen this methodology as this is considered as the only appropriate valuation methodology to undertake in order to value the shares of the Company on a liquidation basis. The liquidation method assumes the assets are sold in a shorter time frame, should take into account liquidation costs and normally results in the value of the assets not achieving the full value they would have realised, if there was no constraint on the timeframe to sell the assets.

10. Valuation of the shares of the Company

Quickflix was placed into Voluntary Administration on 26 April 2016 and on 6 May 2016 Jason Tracy and Richard Hughes replaced the First Administrators pursuant to the resolution of creditors. The purpose of the voluntary administration is to maximise the chances of the Company, or as much as possible of its business continuing in existence; or if this is not possible results in a better return for the Company's creditors than would result from an immediate winding up of the Company. Creditors' claims arising prior to the date of voluntary administration are put on hold as at the date of voluntary administration.

The Company has prepared audited accounts up to and including the year ended 30 June 2014. The financial information presented beyond this period, in Section 5 and below, is unaudited and has been provided to us by the Deed Administrators. In relation to this unaudited financial information, the Deed Administrators have stated in their Report to Creditors (**'Report to Creditors'**) pursuant to Section 439A of the Corporations Act dated 22 September 2016 that whilst they have not undertaken any validation of the management accounts and cannot verify their accuracy, they have not discovered any information that suggests the management accounts do not depict an accurate financial performance and position of the Company.

Since the Deed Administrators appointment, they have taken immediate steps to safeguard the Company's assets and assess the financial viability of the Company's business. They have also continued to trade the Company on a business as usual basis, managing the day to day running of the Company including staffing issues, internal controls and procedures, marketing, customer enquiries and streaming and DVD content.

We have relied on the work performed by the Deed Administrators on the basis they are an independent insolvency practitioners.

10.1 NAV methodology - Going concern basis

The value of Quickflix's assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Notes	Unaudited as at 30-Sep-16 $'000	Adjustments $'000	Adjusted value $'000
ASSETS				
Cash	1	1,952	(785)	1,167
Receivable		121		121
Prepaid- Studio Content		6		6
Prepaid- Other		26		26
Other Assets		31		31
Other financial assets		149		149
Tax Assets		-		-
Property, Plant and Equipment		313		313
Intangible Assets		-		-
TOTAL ASSETS		2,598	(785)	1,813
LIABILITIES				
Credit cards		1		1
Trade Creditors		2,276		2,276
Other Creditors		1,838		1,838

Statement of Financial Position	Notes	Unaudited as at 30-Sep-16 $'000	Adjustments $'000	Adjusted value $'000
Unearned Income		271		271
Provisions		527		527
Borrowings		(185)		(185)
Payroll Liabilities		357		357
Preference Share Liability		11,731		11,731
Tax Liabilities		551		551
TOTAL LIABILITIES		17,367		17,367
NET ASSETS		(14,769)		(15,554)
NUMBER OF SHARES ON ISSUE				2,218,490,654
VALUE PER SHARE				nil

Source: BDO analysis and 30 September Management accounts provided by the Administrators

We have been advised that there has not been a significant change to the net liability position of Quickflix since 6 October 2016 apart from those adjustments discussed below. Other than those items discussed below, we have assumed that the fair market value of the assets and liabilities as at 6 October 2016 are equal to the carrying values as set out in the above statement of financial position.

The table above indicates that Quickflix is in a net liability position. The following adjustments were made to the net assets of Quickflix as at 6 October 2016 in arriving at our valuation.

Note 1: Cash and cash equivalents

The cash and cash equivalents balance has been reduced by approximately $785,461 since September 2016. This is due to the assumed payment of the Voluntary Administrators' fees and Deed Administrators' fees which are still required to be paid. We note that there may be further costs to be incurred in relation to Liquidation costs in the event that either the relief from ASIC is not obtained or the section 444GA application is not successful and creditors subsequently resolve to wind up the Company.

We conclude that due to the fact that the Company is in a net liability position, the value of a share in the Company on a going concern basis is nil.

10.2 NAV methodology - Liquidation basis

The value of Quickflix's assets on a liquidation basis is reflected in our valuation below:

Statement of Financial Position	Notes	Unaudited as at 30-Sep-16 $'000	Adjustments $'000	Adjusted value $'000
ASSETS				
Cash	1	1,952	(785)	1,167
Receivable	2	121		121
Prepaid- Studio Content	2	6		6
Prepaid- Other	2	26		26
Other Assets	2	31		31
Other financial assets	2	149		149
Tax Assets	2	-		-

Statement of Financial Position	Notes	Unaudited as at 30-Sep-16 $'000	Adjustments $'000	Adjusted value $'000
Property, Plant and Equipment	3	313	(150)	163
Intangible Assets		-		-
TOTAL ASSETS		2,598	(1,258)	1,663
LIABILITIES				
Credit cards		1		1
Trade Creditors		2,276		2,276
Other Creditors		1,838		1,838
Unearned Income		271		271
Provisions		527		527
Borrowings		(185)		(185)
Payroll Liabilities		357		357
Preference Share Liability		11,731		11,731
Tax Liabilities		551		551
TOTAL LIABILITIES		17,367		17,367
ADJUSTED NET ASSETS				(15,704)
NUMBER OF SHARES ON ISSUE				2,218,490,654
VALUE PER SHARE				nil

Source: BDO analysis and 30 September Management accounts provided by the Administrators

The table above indicates that Quickflix is in a net liability position. The following adjustments were made to the net assets of Quickflix as at 6 October 2016 in arriving at our valuation on a liquidation basis.

Note 1: Cash and cash equivalents

The cash and cash equivalents balance has been reduced by approximately $785,461 since September 2016. This is due to the assumed payment of the Voluntary Administrators' fees and Deed Administrators' fees which are still required to be paid. We note that there may be further costs to be incurred in relation to Liquidation costs in the event that either the relief from ASIC is not obtained or the section 444GA application is not successful and creditors subsequently resolve to wind up the Company.

Note 2: Other assets

We have assumed a best case scenario from a liquidation perspective where all remaining assets are fully recoverable and hence no adjustments needed to be made. We are unable to determine if the full book value will be recoverable so this scenario represents the highest possible return for Shareholders

Note 3: Property Plant and Equipment

Due to the company being valued on a liquidated basis, assets would need to be sold within a shorter time frame and hence potentially a discount to fair value. We also note that additional liquidation costs would need to be incurred in relation to this process. We have assumed that property plant and equipment is fully recoverable and half of this amount would need to be paid as additional liquidation costs.

We conclude that due to the fact that the Company is in a net liability position, the value of a share in the Company on a liquidation basis is nil.

10.3 Assessment of valuation of the shares of the Company

The results of the valuations performed are summarised in the table below:

	Value $
Valuation of the shares of the Company - Going concern basis	nil
Valuation of the shares of the Company - Liquidation basis	nil

Source: BDO analysis

11. Other considerations

11.1 Comparison between the value of a Company share prior to DOCA and the value Shareholders will receive if the DOCA is completed.

Our Report is prepared pursuant to ASIC's request of the Deed Administrator and for the purposes of granting the waiver from Chapter 6 of the Corporations Act and will be provided to ASIC as well as the Shareholders of the Company. ASIC has requested that the Company obtain an Independent Expert Report to opine on the value of the Company's equity as at 6 October 2016. We have performed this on a going concern basis and on a liquidation basis.

However, we consider it appropriate for Shareholders to be provided with a comparison between the value of a Quickflix share prior to the DOCA and the value they will receive if the DOCA is completed. This comparison is shown below:

	Ref	Value $
Valuation of the shares of the Company - Going concern basis	10.1	nil
Valuation of the shares of the Company - Liquidation basis	10.2	nil
Value a Shareholder will receive if the DOCA is completed		nil

Source: BDO analysis

If the DOCA is completed, Karma will pay $1.3 million into a Deed Fund and assume certain liabilities in exchange for receiving 100% of the shares in the Company. The Deed Administrators have indicated that the funds received from Karma into the Deed Fund will be used to provide a return to the Priority Creditors first and then Unsecured Creditors in accordance with section 556 of the Corporations Act. Shareholders will not receive a return under the DOCA, hence the value in the above table is nil.

Under RG 111.11, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, which is represented by our going concern valuation.

Based on the above analysis, the value that Shareholders will receive if the DOCA is implemented is equal to the value of the shares they hold in the Company; therefore we would conclude the DOCA was 'fair'.

11.2 Alternative proposals available

Following the Deed Administrators' appointment a campaign to either sell the Company's business assets as a going concern or alternatively seek a party willing to recapitalise the Company was undertaken. Following this process four alternative offers were received, with one being the DOCA Proposal from Karma.

The remaining three offers were considerably lower than the DOCA and had significant conditions attached or lacked documentation to support the capacity to raise funds.

Section 439A of the Corporations Act requires that the administrator must convene a meeting of the company's creditors and provide their opinion on the three courses of action that creditors can take in regard to a company that is under administration, as follows:

- Whether it would be in the creditors' interest for the company to execute a DOCA;
- Whether it would be in the creditors' interest for the administration to end; and
- Whether it would be in the creditors' interest for the Company to be wound up.

The Deed Administrators recommended that the DOCA would be in the best interests of the creditors and the creditors of the Company voted unanimously in favour of the DOCA.

Although Shareholders do not have the option to participate in the vote we consider it appropriate to identify whether any value would be returned to Shareholders if either of the alternative options were approved by the creditors.

If the Company were to be wound up, Shareholders would only receive the value that we have determined under our valuation in Section 10.2, which is nil.

In conclusion we do not consider that any other proposals that have been presented to the Company or the Deed Administrators are considered superior to the DOCA or would provide a greater value to Shareholders.

12. Conclusion

We have assessed the value of the shares of the Company as at 6 October 2016 on a going concern basis and on a liquidation basis with the results shown in the below table:

	Ref	Value $
Valuation of the shares of the Company - Going concern basis	10.1	nil
Valuation of the shares of the Company - Liquidation basis	10.2	nil

Source: BDO analysis

We note that both valuation approaches above have resulted in the same conclusion as to the value of the shares of the Company as at 6 October 2016, being nil.

13. Sources of information

This Report has been based on the following information:

- Administrators 439A Report to Creditors dated 22 September 2016;
- Letter from Jason Tracy of Deloitte Financial Advisory Pty Ltd dated 8 November 2016 confirming background of engagement;
- Audited financial statements of Quickflix for the year ended 30 June 2014;
- Reviewed financial statements of Quickflix for the half-year ended 31 December 2014;
- Unaudited management accounts of Quickflix for the year ended 30 June 2015 and the period ended 1 July 2015 to 26 April 2016;
- 2016 Quickflix Financial Workbook provided by Deed Administrators;
- Share registry information for Quickflix as at 26 April 2016;
- Information in the public domain; and
- Discussions with Deed Administrators' Staff

14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $23,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by the Deed Administrators in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Deed Administrators, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Quickflix and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Quickflix and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Quickflix, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to the Deed Administrators for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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15. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

16. Disclaimers and consents

This report has been prepared at the request of the Deed Administrators and which will be provided to all Shareholders. The Deed Administrator engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider valuation of the shares of the Company as at 6 October 2016.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report being provided to the Shareholders of the Company and ASIC. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of any additional information provide to the Shareholders of the Company or ASIC other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company or the Deed Administrator. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the DOCA , tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Quickflix, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes

Director

Adam Myers

Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 (Cth)
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Quickflix Limited (Subject to a Deed of Company Arrangement)
Corporations Act	The Corporations Act 2001 (Cth)
DCF	Discounted Future Cash Flows
Deed Administrators	Richard Hughes and Jason Tracy of Deloitte Financial Advisory Pty Ltd
DOCA	Deed of Company Arrangement
DOCA Proposal	The Deed of Company Arrangement proposal received from Karma Media Holdings LLC, under which Karma Media Holdings LLC would pay $1.3 million into a Deed Fund and assume certain liabilities in exchange for receiving 100% of the shares in the Company
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
FSG	Financial Services Guide
HBO	Home Box Office Inc.
Karma	Karma Media Holdings LLC
NAV	Net Asset Value
QMP	Quoted market price
Quickflix	Quickflix Limited (Subject to a Deed of Company Arrangement)

Reference	Definition
RBA	Reserve Bank of Australia
RPS	Redeemable Preference Shares
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
Report to Creditors	Report to Creditors pursuant to Section 439A of the Corporations Act dated 22 September 2016
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Shareholders	Shareholders of Quickflix Limited
Stan	Stan Entertainment Pty Ltd
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.

The Directors

BDO Corporate Finance (WA) Pty Ltd

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Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1. *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2. *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3. *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax (‘**EBIT**’) or earnings before interest, tax, depreciation and amortisation (‘**EBITDA**’). The capitalisation rate or ‘earnings multiple’ is adjusted to reflect which base is being used for FME.

4. *Discounted future cash flows (‘DCF’)*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

5. *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.