Shareholder Information

Macadamia Processing Company

11 February 2019

The Transaction

MPC intends to acquire all shares in Pacific Gold Macadamias Pty Ltd (PGM) that it does not already own, subject to Shareholder approval. This will build on its current 37% interest in PGM.

The rationale for acquiring PGM

MPC is the largest processor in Australia and its size has afforded it the ability to influence the orderly marketing and sale of a material portion of the Australian crop, playing an important role in opening new markets, growing demand for kernel and directing nut to customers who are expanding market share.

MPC's influence will only continue while it has scale, and with world macadamia production set to double over the next five years, MPC must keep pace with the growth or risk being relegated in terms of influence.

PGM, an entity well known to MPC, represents a low risk growth path that provides MPC with the scale it requires to stay relevant. Importantly, it also provides access to a reliable source of nut from Queensland, the fastest growing macadamia region in Australia.

No cash will be exchanged in acquiring the shares, rather it is proposed that new MPC shares be issued in exchange for the PGM shares.

The potential advantages of the Transaction

a. **Relevance and reliability –** a larger MPC is expected to provide greater influence to support the industry through stable, competitive prices paid to growers as well as continued investment into infrastructure. This is important as stable prices and orderly markets have a direct relationship to farm values.

b. **Efficiencies and savings –** an increase in purchasing power and the realisation of synergies across the combined business is anticipated to lower costs on a per unit basis.

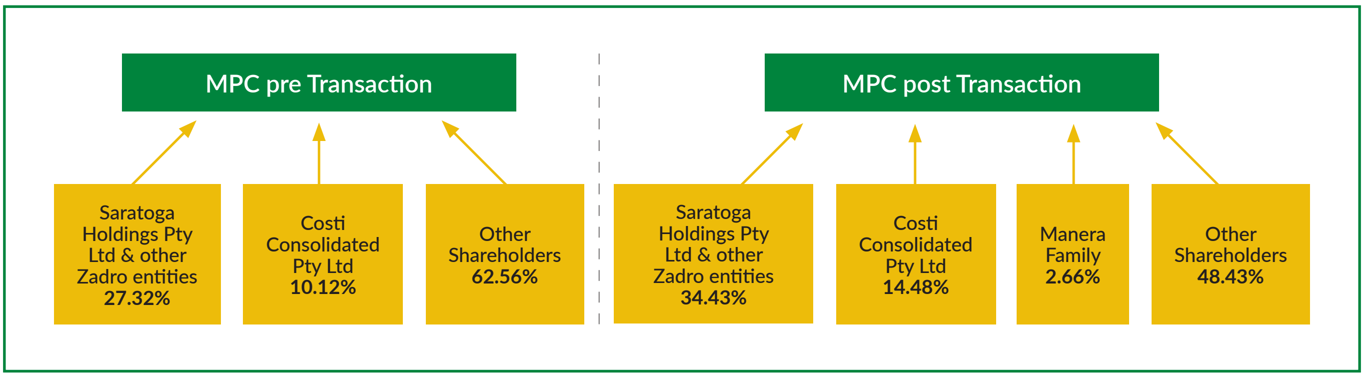
c. **Operational flexibility –** it is intended that MPC and PGM would be managed as a joint operation, with nut directed to where it can be processed most efficiently.

d. **Combined facilities –** the acquisition of PGM is expected to provide the opportunity to establish joint infrastructure such as storage facilities at central locations.

e. **Income return –** at present MPC does not receive a dividend from PGM; instead, the change in its investment value is recognised on MPC's capital account. Once PGM is 100% owned by MPC, profits from PGM will flow to MPC.

f. **Reduced cost of capital –** MPC benefits from co-operative taxation status, making capital investments and improvement very cost effective. It is expected that the Transaction would result in this benefit being extended to any capital expansion undertaken by the combined group, resulting in new capital projects having a lower cost of capital than if undertaken outside the co-operative status.

MPC shareholdings pre and post Transaction



The potential disadvantages of the Transaction

Debt – PGM has a higher level of debt than MPC and thus MPC's debt will increase. Management has undertaken extensive modelling and is confident that the level of debt post-Transaction is within acceptable limits and manageable within normal budgetary constraints.

Concentration of ownership – At present, the largest shareholding in MPC is a Zadro controlled entity holding 27.32%. Zadro entities also own shares in PGM and thus its shareholding will increase to 34.43% as a result of the Transaction. Securing the Zadro production is critical to the success of MPC and thus, in the view of the Directors, this concentration of ownership is necessary and acceptable.

Performance of the merged group – MPC has historically paid a dividend to its shareholders whereas PGM has reinvested all profits back into its business to support its growth. There will be more shares on issue following the Transaction and if management are not able to deliver the identified synergies and all other operating costs at both processors were unchanged, the dividend may be reduced.

Transaction costs – MPC management estimates that costs associated with the Transaction will be approximately $1m. This amount includes approximately $450,000 of stamp duty that will only be incurred if the Transaction proceeds.

The resolutions to be considered

To undertake the necessary changes MPC will hold two meetings, which will be held on the same date, at the same venue. The first meeting considers a class resolution which varies the rights of ordinary shareholders by changing the Constitution. The first resolution at the second meeting also considers changes to the Constitution.

The other two resolutions seek approval for the issue of new MPC shares to the vendors of the PGM shares.

Constitutional changes

The following changes to the Constitution are required to facilitate the Transaction.

Proposed change	Explanation
The number of directors will increase from five to seven, and the quorum for directors meetings from two to four.	It is proposed to increase the number of Directors to ensure a good representation across our Shareholder base.
Any shareholder with more than 11% (Voting Shareholder) can appoint a director, with a maximum of 3 directors. These directors are not subject to normal rotation policy.	For every 11% of shares owned, a Shareholder is entitled to appoint one director. This right is capped at three directors to ensure representation of both large and small shareholders.
Voting Shareholders are not permitted to participate in the election of the remaining directors.	This means that elections for Directors will not be influenced by Voting Shareholders. Rather other shareholders will be able to vote and appoint directors.
Voting Shareholders are required to give a first right of refusal to other MPC shareholders, should they have a bona fide offer to sell their shares.	Should a Voting Shareholder wish to sell their shares, all other MPC shareholders are given the opportunity to acquire the shares on the same terms.
The maximum individual shareholding limit is increased from 30% to 45%.	The Zadro group is delivering 36% of the intake of the combined group and this is likely to increase with their new plantings in Queensland. They wish to keep their shareholding in proportion to their delivery of nut.
The disposal of an asset representing more than 20% of MPC will require a special resolution of the Board.	This ensures that the sale of a major asset is supported by at least 6 of the 7 directors.

The timeline for the Transaction*

11 Feb 2019	MPC announces intention to acquire PGM shares and Shareholder consultation period begins
18,19 & 20 Feb 2019	Information sessions for all interested Shareholders
1 March 2019	Shareholder meeting documentation is distributed
13 & 14 March 2019	Second round of Shareholder Information sessions
24 March 2019	Proxies close
26 March 2019	Shareholder meetings held at Ballina RSL Club and results announced

***** Dates are subject to change

If you have any questions regarding the proposed Transaction, please contact Andrea Lemmon, Transaction Manager by email alemmon@mpcmacs.com.au or by telephone 0407 417 286 during business hours.

MPC®