SmartPay Holdings Limited

Independent Report

In Respect of the Grant of Options and the Allotment of Shares to Haymaker Investments Pty Limited

February 2012

Index

1. Introduction

1.1 Background

SmartPay Holdings Limited (**SmartPay** or the **Company**) is a leading provider of integrated merchant services using the internet and broadband connectivity. It offers a variety of advanced payment and data management solutions for retail, business payment and transactional processing requirements.

SmartPay's product set includes:

- telecommunications products and services including voice over internet protocol (**VOIP**), broadband, EFTPOS terminals and secure EFTPOS internet connectivity
- audio and video, music, messaging and media via its retail radio product set
- prepayment products and transactional processing services for the taxi industry.

The Company's core products and services include:

- Wi-Fi – one of the largest networks in New Zealand
- in-store audio visual promotional systems – retail radio
- internet enabled EFTPOS equipment sales and rental
- gift cards
- secure internet payments
- mobile top-up
- calling cards
- bill payment solutions
- VOIP
- online payments.

The Company was listed on the main equities security market (**NZSX**) operated by NZX Limited (**NZX**) on 16 May 2006 via a reverse takeover of Cube Capital Limited.

SmartPay's market capitalisation as at 31 January 2012 was $12 million and its unaudited equity as at 30 September 2011 was $15 million.

1.2 Appointment of Group Chief Executive Officer

The Company announced on 21 December 2011 that it had appointed Bradley Gerdis as group chief executive officer.

SmartPay, SmartPay Australia Pty Limited (**SmartPay Aust**), Active Capital Partners Pty Limited (**Active Capital**) and Mr Gerdis entered into a management consultancy agreement on 19 December 2011 (the **Consultancy Contract**), under which Active Capital provides services to the SmartPay group. In particular, Mr Gerdis is to initially act as chief executive officer of the SmartPay group and will transition to managing director of SmartPay on the earlier of the date on which SmartPay is listed on the Australian Securities Exchange or 1 July 2012 (or such earlier date as the Company and Active Capital may agree).

Mr Gerdis is the sole shareholder and director of Active Capital.

Active Capital's remuneration under the Consultancy Contract consists of:

- an annual fee of A$272,500 (plus GST) for the period in which Mr Gerdis acts as chief executive officer, increasing to A$381,500 (plus GST) once Mr Gerdis assumes the role of managing director
- at the sole discretion of the SmartPay board, a short term incentive of between 25% and 50% of the annual base fee may be payable
- a long term incentive bonus in the form of 20,000,000 share options (the **Incentive Options**) (subject to shareholder approval) or payments in lieu of the options. The Incentive Options consist of:
  - 10,000,000 options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $0.20 per share from 1 April 2013 to 31 March 2017 (the **2017 Incentive Options**)
  - 10,000,000 options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $0.30 per share from 1 April 2014 to 31 March 2018 (the **2018 Incentive Options**).

Active Capital has nominated Haymaker Investments Pty Limited (**Haymaker**) as the recipient of the Incentive Options. Haymaker is the trustee of the Haymaker Trust. Mr Gerdis is a shareholder and director of Haymaker and is a discretionary beneficiary of the Haymaker Trust.

The grant of the Incentive Options must be approved by the Company's shareholders by ordinary resolution under NZSX Listing Rule 7.3.1(a).

The Consultancy Contract was conditional on Haymaker entering into a subscription agreement with SmartPay dated 19 December 2011 (the **Subscription Agreement**) whereby Haymaker subscribed for 10,000,000 ordinary shares in the Company at an issue price of $0.10 per share for a total consideration of $1.0 million (the **Haymaker Placement**).

In part consideration for the Haymaker Placement, Haymaker was granted 10,000,000 options with each option entitling the holder to subscribe for one ordinary fully paid share in the Company for $0.15 per share from 1 January 2013 to 31 December 2014 (the **Haymaker 2014 Options**).

1.3 Special Meeting of Shareholders

SmartPay is holding a special meeting of shareholders on 24 February 2012 whereby:

- the SmartPay shareholders not associated with Active Capital and Haymaker will vote on an ordinary resolution in respect of the grant of the Incentive Options (resolution 1)
- the SmartPay shareholders not associated with Haymaker will vote on ordinary resolutions in respect of:
  - the ratification of the Haymaker Placement (resolution 2)
  - the ratification of the grant of the Haymaker 2014 Options (resolution 3).

We refer to the shareholders who are not associated with Active Capital or Haymaker (in respect of resolution 1) or Haymaker (in respect of resolutions 2 and 3) as the **Non-associated Shareholders**.

Shareholders will also vote on ordinary resolutions in respect of:

- the ratification of the issue of $1,000,000 of convertible notes (convertible into ordinary shares in the Company at $0.15 per share) on 30 November 2011 (resolution 4)
- the approval of the issue of $1,000,000 of convertible notes (convertible into ordinary shares in the Company at $0.10 per share) (resolution 5)
- the approval of the issue of 2,500,000 ordinary shares in the Company at $0.10 per share (resolution 6)
- the approval of the issue of 10,000,000 ordinary shares in the Company at $0.10 per share (resolution 7)
- the approval of the issue of ordinary shares in the Company at $0.10 per share to raise a total of A$400,000 (resolution 8).

1.4 Purpose of the Report

The directors of SmartPay (the **Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Report on the fairness of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options.

We note that there is no regulatory requirement for this Independent Report under the NZSX Listing Rules or the Takeovers Code.

This report is not an Appraisal Report for the purposes of the NZSX Listing Rules.

Simmons Corporate Finance issues this Independent Report to the Directors to assist the Non-associated Shareholders in forming their own opinion on whether to vote for or against the resolutions in respect of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options in relation to each shareholder. This report on the fairness of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options is therefore necessarily general in nature.

The Independent Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Fairness of the Incentive Options

2.1 Basis of Evaluation

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 have evaluated the fairness of the Incentive Options by reference to:

- the rationale for the Incentive Options
- the terms and conditions of the Incentive Options
- the value of the Incentive Options to Haymaker
- the impact of the Incentive Options on shareholding levels
- the impact of the Incentive Options on SmartPay's share price.

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 Opinion on the Fairness of the Incentive Options

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

The basis for our opinion is set out in detail in sections 2.3 to 2.8. In summary, the key factors leading to our opinion are:

- the rationale for the Incentive Options is reasonable
- the options are issued out of the money (ie the exercise price is higher than the current share price). The Incentive Options will only have value to Haymaker if the Company's share price exceeds:
  - $0.20 (for the 2017 Incentive Options) by 31 March 2017
  - $0.30 (for the 2018 Incentive Options) by 31 March 2018
- the options are not transferable, except in limited circumstances
- the assessed value of the Incentive Options represents 2.4% of the Company's current market capitalisation
- the dilutionary impact of the Incentive Options on Non-associated Shareholders is approximately 13%
- the Incentive Options are unlikely to have any material impact on SmartPay's share price or the liquidity of its shares.

2.3 Rationale for the Incentive Options

SmartPay's rationale for granting the options is to reward and incentivise Mr Gerdis and to raise additional capital if the options are exercised. The Directors have developed a remuneration structure which they believe provides a strong performance incentive to Mr Gerdis, rewards performance without drawing upon the cash resources of the Company and ensures that rewards are derived by Mr Gerdis only after shareholders have received appropriate returns on their investment.

The Directors consider it imperative that Mr Gerdis is appropriately incentivised and rewarded as the Company develops its products and services in the New Zealand and Australian markets and seeks to substantially increase its revenue and earnings.

In general terms, companies provide equity-based long-term executive incentive remuneration to tie executives' remuneration to the annual and long term financial performance of the company and to align the interests of the executives with shareholders. Key benefits to the company include:

- equity-based long-term executive incentive remuneration helps to attract and retain top executives
- it enables executives to build equity ownership in the company
- executives' interests are more closely aligned with shareholders' interests.

Given that the intention is for Mr Gerdis to assume the role of managing director, section 2.7 of Appendix 16 Corporate Governance Best Practice Code of the NZSX Listing Rule (the **NZX Code**) is relevant. This states:

> *Directors are encouraged to take a portion of their remuneration under a performance-based Equity Security compensation plan. The Equity Security compensation plan should not vest until at least after 2 years after the grant of plan entitlements to the Director. Alternatively (or in addition), Directors are encouraged to invest a portion of their cash Directors' remuneration in purchasing the Issuer's Equity Securities.*

There has been growing criticism in New Zealand and abroad in respect of the granting of options to executives. The criticisms centre around:

- the lack of performance hurdles and / or inadequate explanation of performance hurdles
- the length of term for the exercise of the options being too short and hence not aligning with shareholder interests
- already generous remuneration for executives.

In our view, the rationale for the Incentive Options is sound:

- it aims to provide a long-term incentive (potentially spanning over 6 years to 31 March 2018), thus potentially aiding in the retention of Mr Gerdis
- it is designed to align the interests of Mr Gerdis with those of the Company's shareholders by issuing the options out of the money.

While we consider the rationale for the Incentive Options to be sound, we note that Mr Gerdis already has a strong alignment of interests with the Non-associated Shareholders as he currently holds 7.67% of the Company's shares through Haymaker. Therefore it is questionable as to whether the Incentive Options provide any significant incremental incentive to Mr Gerdis to enhance the value of the Company.

2.4 Terms of the Incentive Options

The key terms of the Incentive Options are:

- the 2017 Incentive Options:
  - vest on 1 April 2013 (or earlier if the Company is subject to a takeover offer, a change of control or a merger by way of scheme of arrangement) and only if the Consultancy Contract is still in force on that date and Mr Gerdis is chief executive officer or managing director of SmartPay
  - expire on 31 March 2017
- the 2018 Incentive Options:
  - vest on 1 April 2014 (or earlier if the Company is subject to a takeover offer, a change of control or a merger by way of scheme of arrangement) and only if the Consultancy Contract is still in force on that date and Mr Gerdis is chief executive officer or managing director of SmartPay
  - expire on 31 March 2018
- the options can be exercised at any time from the relevant vesting date through to the relevant expiry date
- the options automatically lapse:
  - if they are not exercised before the relevant expiry date
  - if the Consultancy Contract is terminated by SmartPay Aust for a termination reason (including if Active Capital or Mr Gerdis is guilty of serious or wilful misconduct or wilful or gross neglect, negligence or dishonesty in the performance of their duties, materially neglects or materially fails or refuses to perform their duties or is unable to perform their duties for more than 3 months in any 12 month period)
  - within 3 months of the Consultancy Contract being terminated by Active Capital
- if the Consultancy Contract is terminated by SmartPay other than for a termination reason then the options automatically vest and are exercisable at any time on or before the relevant expiry date
- no options may be exercised if the exercise of such options result in a person and their associates holding or controlling, in aggregate, more than 19.99% of the voting rights in the Company
- the options are granted for nil cash consideration and in part consideration for the services to be provided by Active Capital and Mr Gerdis under the Consultancy Contract
- the exercise price is payable in full at the time of exercise of an option

- the options are non-transferrable other than to:
  - a spouse of Mr Gerdis
  - the trustee(s) of a trust in which Mr Gerdis is a beneficiary
  - the trustee of a superannuation fund of which Mr Gerdis is a beneficiary
  - a company, all of the shares in which are owned by Mr Gerdis and / or one or more of the persons previously mentioned
- the options may be transferred to a third party in addition to those specified above if:
  - the options have vested and are currently exercisable at the time of such transfer and
  - the transferee is irrevocably and unconditionally required under the terms of the transfer to exercise all of the options transferred within 5 business days of the transfer taking place
- the shares issued upon exercise of the options rank equally with existing ordinary shares in the Company from the date of issue
- the terms of the options are adjustable on a pro rata basis in the event of any bonus share issue or other pro rata issue of shares or reconstruction of the Company's issued capital.

Positive Features

We consider the following terms are positive features of the Incentive Options:

- the options do not vest immediately
- the options are being issued out of the money
- the exercise periods of the options are 4 years
- the options are not transferable, except in limited circumstances
- the options lapse if the Consultancy Contract is terminated for reason.

Options do not Vest Immediately

The Incentive Options do not vest immediately upon their grant:

- the 2017 Incentive Options do not vest until 1 April 2013
- the 2018 Incentive Options do not vest until 1 April 2014.

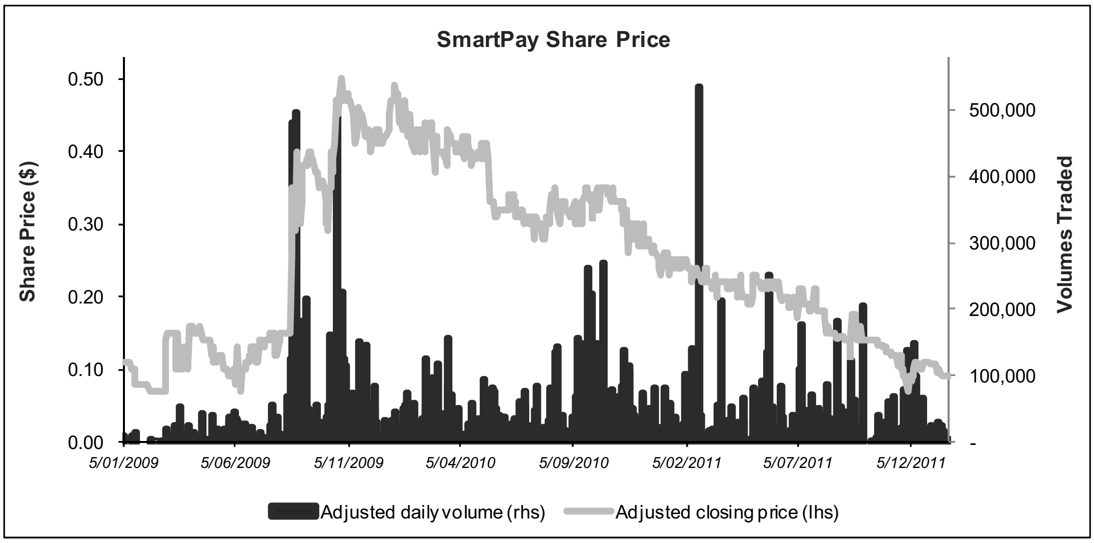
However, the Incentive Options may vest earlier if the Company is subject to a takeover offer, a change of control or a merger by way of scheme of arrangement.

The vesting of the Incentive Options in 2 tranches over a period in excess of 2 years is in line with the recommendations in the NZX Code and as such, potentially aids in the retention of Mr Gerdis.

Options are out of the Money

The exercise prices of the Incentive Options have been set at a premium to the prevailing share price (ie the options are granted out of the money).

Set out below is a summary of SmartPay's daily closing share price and daily volumes of shares traded from 5 January 2009 to 31 January 2012. The share prices and volumes prior to 23 May 2011 have been adjusted for the 10:1 share consolidation undertaken by SmartPay on 20 May 2011.



During the period, SmartPay's shares have traded between $0.07 and $0.50 at a volume weighted average share price (**VWAP**) of $0.31.

The VWAP for the month to 16 December 2011 (being the business day before the Consultancy Contract was signed) was $0.10.

The exercise price of $0.20 for the 2017 Incentive Options represents a premium of 100% to the VWAP of $0.10 and the exercise price of $0.30 for the 2018 Incentive Options represents a 200% premium.

Based on recent prices, the Incentive Options continue to be out of the money. In order for the Incentive Options to be of value to Haymaker, SmartPay's share price will need to increase beyond $0.20 during the exercise period of the 2017 Incentive Options and beyond $0.30 during the exercise period of the 2018 Incentive Options, in which case all current shareholders will have seen an appreciation in the value of their investment in SmartPay.

4 Year Exercise Period

The Incentive Options have a 4 year exercise period. The 2017 Incentive Options can be exercised on or before 31 March 2017 and the 2018 Incentive Options can be exercised on or before 31 March 2018. Therefore the benefits to be derived by Mr Gerdis will possibly accrue over up to 6 years. This potentially provides a long-term incentive to Mr Gerdis.

We note however that the Incentive Options can be exercised at any time once they vest on 1 April 2013 and 1 April 2014 respectively. Therefore, depending on SmartPay's future share price movements, it is possible that the options will be exercised sooner than the 4 year limits and hence may not represent as great a long-term incentive to Mr Gerdis.

Limited Transferability

The Incentive Options cannot be freely transferred by Haymaker other than to Mr Gerdis' spouse, the trustee(s) of a trust in which Mr Gerdis is a beneficiary, the trustee of a superannuation fund of which Mr Gerdis is a beneficiary or a company in which all of the shares are owned by Mr Gerdis or one or more of the persons previously mentioned. Therefore Haymaker cannot readily realise value for the options in the near term.

Haymaker is permitted to transfer the options to a third party, but only if the options are exercisable at the time and the transferee exercises the options within 5 business days of the transfer. Such a transfer is, in theory, only likely to occur if the options are in the money.

The limited transferability of the options may aid in achieving the objective of the options being a long-term incentive to Mr Gerdis.

Options Lapse if the Consultancy Contract Terminates for Reason

The Incentive Options will lapse if the Consultancy Contract is terminated by the Company for a termination reason or if the Consultancy Contract is terminated by Active Capital. This may further aid in ensuring the retention of Mr Gerdis.

We note however that if SmartPay terminates the Consultancy Contract other than for a termination reason, the Incentive Options will automatically vest and will be exercisable at any time up to their relevant expiry date.

Negative Features

When viewed overall, we do not consider any of the terms of the Incentive Options to be significantly negative from the perspective of the Non-associated Shareholders.

We are of the view that additional terms could have been considered by the Directors in devising the Incentive Options to further meet their objectives of providing a long-term incentive, aiding in the retention of Mr Gerdis and more closely aligning his interests with those of the Non-associated Shareholders.

Such additional terms could have included setting annual performance targets that had to be met before the Incentive Options would vest. Such performance targets could have been referenced to annual increases in total shareholder return, share price or earnings per share. However, we note that setting exercise prices significantly in excess of the current share price have a similar effect in many ways to performance targets.

While additional terms such as performance targets could more closely align with the objectives of the Directors, they would have negative value implications to Active Capital and Mr Gerdis. Therefore, in the context of the negotiations with the Directors, other (compensating) terms may have been negotiated - such as lower exercise prices or an increased number of Incentive Options. This may have resulted in minimal changes in the overall value of the Incentive Options to Active Capital and Mr Gerdis or its cost to the Company.

2.5 Value of the Incentive Options

Our assessment of the value of the Incentive Options is set out in section 5.

We assess the value of the Incentive Options to be in the vicinity of $290,000. This represents 2.4% of the Company's current market capitalisation.

It is important to bear in mind that while we have assessed the current value of the Incentive Options to be in the vicinity of $290,000, the actual benefit received by Haymaker may be anywhere from nil (if the options are not exercised) to potentially considerably more than $290,000 (depending on the actual prices of SmartPay shares).

SmartPay will be required to recognise the fair value of the Incentive Options as an expense in its statement of financial performance in accordance with *NZ IFRS-2 Share-based Payment*. The fair value will need to be determined as at the grant date of the options.

2.6 Impact on Shareholding Levels

Share Capital and Shareholders

SmartPay currently has 130,371,407 ordinary fully paid shares on issue held by 1,121 shareholders.

The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 20 January 2012 are set out below.

SmartPay's 10 Largest Shareholders

Shareholder	No. of Shares Held	%
Walker & Hall Fine Gifts Limited	10,093,345	7.74%
Haymaker	10,000,000	7.67%
Kim Crawford, Three H Limited and Frederika Crawford	7,720,637	5.92%
Hubbard Churcher Trust Management Limited	7,714,265	5.92%
Galileo Investments Trustee Limited	7,560,000	5.80%
River Horse Trustee Limited	7,275,963	5.58%
New Zealand Central Securities Depository Limited	6,183,905	4.74%
Chapter 52 Trustee Limited	5,996,002	4.60%
Gregory Molloy and Claymore Trustees Limited	4,891,529	3.75%
Walter Yovich	4,622,015	3.55%
Subtotal	72,057,661	55.27%
Others (1,111 shareholders)	58,313,746	44.73%
Total	130,371,407	100.00%

Source: NZX Data

Options

SmartPay currently has a total of 90,000,000 unlisted options on issue (excluding the Incentive Options and the Haymaker 2014 Options). The options have expiry dates ranging from 31 March 2014 to 31 March 2016 and exercise prices ranging from $0.40 to $0.50 per share. All of the options are currently out of the money.

Convertible Notes

SmartPay currently has 3,000,000 $1 convertible notes on issue. These notes are convertible into ordinary shares at $0.15 per share on or before 15 February 2013. The conversion price is higher than the current share price. If the convertible notes were converted in full, the Company would be required to issue 20,000,000 new ordinary shares.

Shareholding Control

Assuming 20,000,000 Incentive Options are granted, this will represent:

- 15.34% of the ordinary shares currently on issue
- 8.32% of the ordinary shares, options and convertible notes currently on issue (on a fully diluted basis).

Assuming 20,000,000 Incentive Options are exercised, along with the 90,000,000 options currently on issue and the 3,000,000 convertible notes currently on issue are converted into ordinary shares, the 20,000,000 ordinary shares issued to Haymaker will represent 7.68% of the Company's shares on issue.

Haymaker currently owns 7.67% of the shares in the Company through the Haymaker Placement. The exercise of the Incentive Options will increase Haymaker's shareholding in the Company to 19.95% (assuming no other options are exercised, no convertible notes are converted into ordinary shares and no further shares are issued) or 11.52% (assuming all of the other options are exercised, all of the convertible notes are converted into ordinary shares and no further shares are issued).

Dilutionary Impact

Assuming 20,000,000 Incentive Options are granted and exercised, this will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 13%, based on the current number of shares on issue and no other options being exercised and no convertible notes being converted into ordinary shares.

While this level of dilution is relatively significant, it should be borne in mind that the exercise of all of the Incentive Options will, in theory, only occur if the Company's share price exceeds the exercise price at each exercise date, in which case the Non-associated Shareholders will have seen a significant appreciation in the value of their shares and the Company will receive an additional $5.0 million of equity.

2.7 Impact on Share Price and Liquidity

Share Price

The Company's share price movements are set out in section 2.4. We consider the existence of the Incentive Options is unlikely to have a material effect (either positive or negative) on the Company's share price as the exercise prices are significantly higher than the current share price and the dilutionary impact of the Incentive Options is not significant.

Liquidity

The volume of SmartPay shares traded is very thin.

SmartPay Share Trading					
Period	**Low [1] $**	**High [1] $**	**VWAP [1] $**	**Volume Traded [1] (000)**	**Liquidity [1]**
1 month	0.09	0.11	0.11	96	0.1%
3 months	0.07	0.13	0.10	1,076	0.8%
6 months	0.07	0.18	0.13	2,395	1.8%
12 months	0.07	0.25	0.18	5,825	4.5%

1 To 31 January 2012

The size of the pool of shares held by the Non-associated Shareholders (the **Public Pool**) will not change as a result of the allotment of shares upon the exercise of the Incentive Options.

In our view, the allotment of shares upon the exercise of the Incentive Options in itself is unlikely to have a positive or negative effect on the liquidity of SmartPay's shares.

2.8 Implications of the Resolution not being Approved

In the event that resolution 1 in respect of the grant of the Incentive Options is not approved, the Consultancy Contract sets out a formula for determining cash payments to be made to Active Capital.

If for any reason the 2017 Incentive Options or the 2018 Incentive Options are not granted, then the Company will be required to make a cash payment to Active Capital in part consideration for the services provided by Active Capital. Active Capital will be able to request the cash payments at any time during the period that it could have exercised the Incentive Options.

The details of the calculation of the cash payments are set out in the notice of special meeting. The cash payments effectively equate to the excess of the Company's VWAP at the time of the request for the cash payment over the respective Incentive Options' exercise price ($0.20 or $0.30) times 10,000,000 (ie the number of respective Incentive Options).

The cash payments in respect of the 2017 Incentive Options and the 2018 Incentive Options are each subject to a maximum cap of $2,500,000 respectively.

2.9 Voting For or Against the Resolution in Respect of the Incentive Options

Voting for or against resolution 1 in respect of the Incentive Options 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 Haymaker Placement

3.1 Basis of Evaluation

We have evaluated the fairness of the Haymaker Placement by reference to:

- the rationale for the Haymaker Placement
- the terms and conditions of the Haymaker Placement
- the impact of the Haymaker Placement on shareholding levels
- the impact of the Haymaker Placement on SmartPay's share price.

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 Opinion on the Fairness of the Haymaker Placement

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

The basis for our opinion is set out in detail in sections 3.3 to 3.7. In summary, the key factors leading to our opinion are:

- the rationale for the Haymaker Placement is reasonable
- the issue price of the Haymaker Placement of $0.10 per share, less the value of the Haymaker 2014 Options, is reasonable, albeit at a slight discount to the market price of the Company's shares at the issue date
- the dilutionary impact of the Haymaker Placement on Non-associated Shareholders is approximately 8%
- the Haymaker Placement is unlikely to have any material impact on SmartPay's share price or the liquidity of its shares.

3.3 Rationale for the Haymaker Placement

The Consultancy Contract was conditional on Haymaker entering into the Subscription Agreement.

The Haymaker Placement involves Mr Gerdis, through Haymaker, taking a substantial shareholding in the Company at the time of his appointment as the SmartPay group's chief executive officer. Through the Haymaker Placement, Haymaker holds 7.67% of the Company's shares on issue and is SmartPay's second largest shareholder.

In our view, the Haymaker Placement is positive for the Non-associated Shareholders. It raises $1.0 million of additional equity for SmartPay to apply towards repaying the Company's external debt and for funding the Company's working capital requirements and strongly signals Mr Gerdis' confidence in the future prospects of the Company.

3.4 Terms of the Haymaker Placement

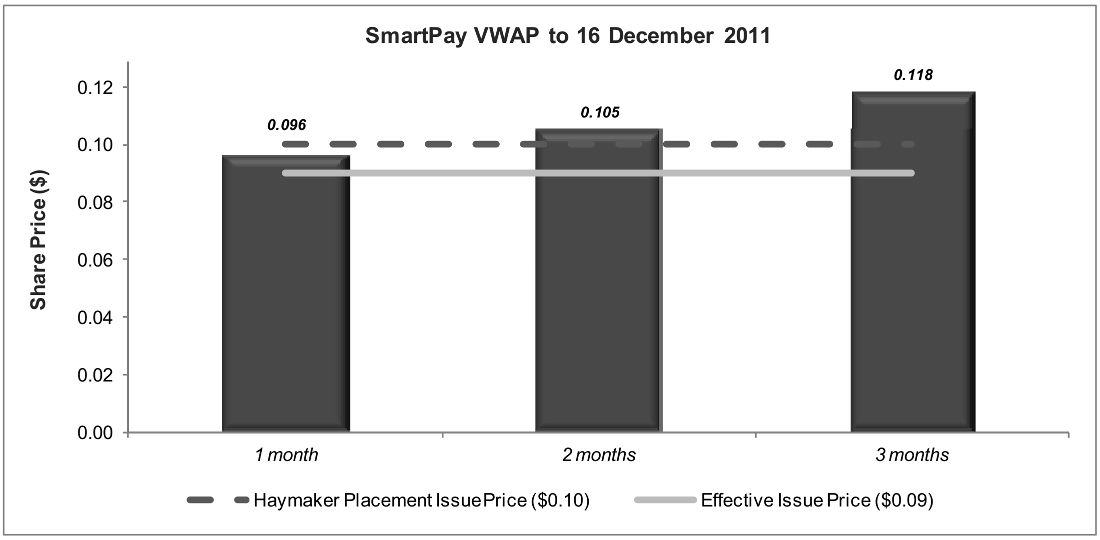
The key terms of the Haymaker Placement are:

- Haymaker subscribes for 10,000,000 new ordinary shares in the Company
- the issue price is $0.10 per share
- the share issued under the Haymaker Placement rank *pari passu* with all existing shares on issue
- as part consideration for the Haymaker Placement, Haymaker is granted the Haymaker 2014 Options.

The key term of the Haymaker Placement from the Non-associated Shareholders' perspective is the issue price. While the issue price of the Haymaker Placement is $0.10 per share, Haymaker has been granted the 2014 Haymaker Options as part consideration for the Haymaker Placement.

As set out in section 6, we assess the value of the 2014 Haymaker Options to be in the vicinity of $100,000. Accordingly, the effective issue price of the 10,000,000 shares issued under the Haymaker Placement is $0.09 per share (being the $1.0 million subscription price for the 10,000,000 shares less the $100,000 value of the Haymaker 2014 Options divided by 10,000,000 shares).

The graph below shows that the effective issue price of $0.09 per share is approximately 7% below the one month VWAP to 16 December 2011.



The Company's share price has remained relatively steady since the Haymaker Placement.

We are of the view that the effective issue price of the shares issued under the Haymaker Placement is reasonable as it is much in line with the Company's share price at the date of issue, albeit at a slight discount. It is common for companies listed on the NZSX, when making placements of relatively large parcels of shares, to do so at a discount to the prevailing market share price.

3.5 Impact on Shareholding Levels

SmartPay's capital structure and shareholders are set out in section 2.6.

The 10,000,000 ordinary shares issued under the Haymaker Placement resulted in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 8%.

Given that the issue price of the Haymaker Placement was much in line with the market price of the Company's shares at the date of issue, we do not consider this level of dilution to be of significance to highlight it as a negative aspect of the Haymaker Placement.

3.6 Impact on Share Price and Liquidity

Share Price

We do not consider the Haymaker Placement will have a material effect (either positive or negative) on the Company's share price as the issue price was much in line with the market share price at the date of issue.

Liquidity

The volume of SmartPay shares traded over the past year is set out in section 2.4.

In our view, the allotment of shares under the Haymaker Placement in itself is unlikely to have a positive or negative effect on the liquidity of SmartPay's shares as the size of the Public Pool does not change as a result of the allotment of shares under the Haymaker Placement.

3.7 Implications of the Resolution not being Approved

The purpose of resolution 2 is to ratify the Haymaker Placement. The Haymaker Placement was undertaken under NZSX Listing Rule 7.3.5.

If the resolution is not approved, there will be no implications in respect of the Haymaker Placement but the non approval will limit the Company's ability to issue shares in the future under NZSX Listing Rule 7.3.5.

3.8 Voting For or Against the Resolution in Respect of the Haymaker Placement

Voting for or against resolution 2 in respect of the Haymaker Placement 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. Evaluation of the Fairness of the Haymaker 2014 Options

4.1 Basis of Evaluation

We have evaluated the fairness of the Haymaker 2014 Options by reference to:

- the rationale for the Haymaker 2014 Options
- the terms and conditions of the Haymaker 2014 Options
- the value of the Haymaker 2014 Options to Haymaker
- the impact of the Haymaker 2014 Options on shareholding levels
- the impact of the Haymaker 2014 Options on SmartPay's share price.

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.

4.2 Opinion on the Fairness of the Haymaker 2014 Options

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Haymaker 2014 Options are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 4.3 to 4.8. In summary, the key factors leading to our opinion are:

- the rationale for the Haymaker 2014 Options is reasonable
- the options are issued out of the money. The Haymaker 2014 Options will only have value to Haymaker if the Company's share price exceeds $0.15 by 31 December 2014
- the options are not transferable, except in limited circumstances
- the assessed value of the Haymaker 2014 Options represents 0.8% of the Company's current market capitalisation
- the dilutionary impact of the Haymaker 2014 Options on Non-associated Shareholders is approximately 7%
- the Haymaker 2014 Options are unlikely to have any material impact on SmartPay's share price or the liquidity of its shares.

4.3 Rationale for the Haymaker 2014 Options

SmartPay granted the Haymaker 2014 Options as part consideration for the Haymaker Placement.

As discussed in section 3.4, we consider the issue price of the shares under the Haymaker Placement, after taking into account the value of the Haymaker 2014 options, to be reasonable.

4.4 Terms of the Haymaker 2014 Options

The key terms of the Haymaker 2014 Options include:

- the options vest on 1 January 2013 (or earlier if the Company is subject to a takeover offer, a change of control or a merger by way of scheme of arrangement) and only if the Consultancy Contract is still in force on that date and Mr Gerdis is chief executive officer or managing director of SmartPay
- the options expire on 31 December 2014
- the options can be exercised at any time from the vesting date through to the expiry date
- the options automatically lapse:
  - if they are not exercised before the expiry date
  - if the Consultancy Contract is terminated by SmartPay Aust for a termination reason (including if Active Capital or Mr Gerdis is guilty of serious or wilful misconduct or wilful or gross neglect, negligence or dishonesty in the performance of their duties, materially neglects or materially fails or refuses to perform their duties or is unable to perform their duties for more than 3 months in any 12 month period)
  - within 3 months of the Consultancy Contract being terminated by Active Capital
- if the Consultancy Contract is terminated by SmartPay other than for a termination reason then the options automatically vest and are exercisable at any time on or before the relevant expiry date
- no options may be exercised if the exercise of such options result in a person and their associates holding or controlling, in aggregate, more than 19.99% of the voting rights in the Company
- the options are granted for nil cash consideration and in part consideration for the Haymaker Placement
- the exercise price is payable in full at the time of exercise of an option
- the options are non-transferrable other than to:
  - a spouse of Mr Gerdis
  - the trustee(s) of a trust in which Mr Gerdis is a beneficiary
  - the trustee of a superannuation fund of which Mr Gerdis is a beneficiary
  - a company, all of the shares in which are owned by Mr Gerdis and / or one or more of the persons previously mentioned
- the options may be transferred to a third party in addition to those specified above if:
  - the options have vested and are currently exercisable at the time of such transfer and
  - the transferee is irrevocably and unconditionally required under the terms of the transfer to exercise all of the options transferred within 5 business days of the transfer taking place

- the shares issued upon exercise of the options rank equally with existing ordinary shares in the Company from the date of issue
- the terms of the options are adjustable on a pro rata basis in the event of any bonus share issue or other pro rata issue of shares or reconstruction of the Company's issued capital.

Positive and Negative Features of the Haymaker 2014 Options

Given that the Haymaker 2014 Options have the same features as the Incentive Options – other than the exercise price, vesting date and expiry date - our analysis of the positive and negative features of the Incentive Options set out in section 2.4 applies equally to the Haymaker 2014 Options.

With respect to the exercise price, the Haymaker 2014 Options are granted out of the money. The exercise price of $0.15 represents a premium of 50% to the one month VWAP to 16 December 2011 of $0.10.

Based on recent prices, the Haymaker 2014 Options continue to be out of the money. In order for the Haymaker 2014 Options to be of value to Haymaker, SmartPay's share price will need to increase beyond $0.15 during the exercise period to 31 December 2014, in which case all current shareholders will have seen an appreciation in the value of their investment in SmartPay.

4.5 Value of the Haymaker 2014 Options

Our assessment of the value of the Haymaker 2014 Options is set out in section 6.

We assess the value of the Haymaker 2014 Options to be in the vicinity of $100,000. This represents 0.8% of the Company's current market capitalisation.

It is important to bear in mind that while we have assessed the current value of the Haymaker 2014 Options to be in the vicinity of $100,000, the actual benefit received by Haymaker may be anywhere from nil (if the options are not exercised) to potentially considerably more than $100,000 (depending on the actual prices of SmartPay shares).

4.6 Impact on Shareholding Levels

Share Capital and Shareholders

SmartPay's capital structure and shareholders are set out in section 2.6.

The exercise of the 10,000,000 Haymaker 2014 Options will result in the Non-associated Shareholders' proportionate shareholdings in the Company being diluted by approximately 7%, based on the current number of shares on issue and no other options being exercised and no convertible notes converted into ordinary shares.

While this level of dilution is relatively significant, it should be borne in mind that the exercise of all of the Haymaker 2014 Options will, in theory, only occur if the Company's share price exceeds the exercise price of $0.15 (in which case, the Non-associated Shareholders will have seen a significant appreciation in the value of their shares) and the Company will receive an additional $1.5 million of equity.

We do not consider this level of dilution to be of significance to highlight it as a negative aspect of the Haymaker 2014 Options.

4.7 Impact on Share Price and Liquidity

Share Price

The Company's share price movements are set out in section 2.4. We consider the existence of the Haymaker 2014 Options is unlikely to have a material effect (either positive or negative) on the Company's share price as the exercise price is higher than the current share price and the dilutionary impact of the Haymaker 2014 Options is not overly significant.

Liquidity

The volume of SmartPay shares traded over the past year is set out in section 2.4.

The size of the Public Pool will not change as a result of the allotment of shares upon the exercise of the Haymaker 2014 Options.

In our view, the allotment of shares upon the exercise of the Haymaker 2014 Options in itself is unlikely to have a positive or negative effect on the liquidity of SmartPay's shares.

4.8 Implications of the Resolution not being Approved

The purpose of resolution 3 is to ratify the grant of the Haymaker 2014 Options. The Haymaker 2014 Options were granted under NZSX Listing Rule 7.3.5.

If the resolution is not approved, there will be no implications in respect of the Haymaker 2014 Options but the non approval will limit the Company's ability to issue shares in the future under NZSX Listing Rule 7.3.5.

4.9 Voting For or Against the Resolution in Respect of the Haymaker 2014 Options

Voting for or against resolution 3 in respect of the Haymaker 2014 Options 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.

5. Valuation of the Incentive Options

5.1 Methodology and Valuation Approach

The 2017 Incentive Options can be exercised between 1 April 2013 and 31 March 2017 and the 2018 Incentive Options can be exercised between 1 April 2014 and 31 March 2018. Therefore the options are American options (as opposed to European options which can only be exercised on one particular day).

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of an American Option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

The values derived from the Binomial Model and Black-Scholes Formula represents the value of options over existing shares. The Incentive Options are in effect warrants and hence SmartPay will issue new shares whenever the options are exercised. Accordingly, an adjustment must be made to the values derived from the Binomial Model and Black-Scholes Formula to take into account the dilutionary effect of the Incentive Options.

Furthermore, the values derived from the Binomial Model and Black-Scholes Formula represents the value of options which are freely tradable. Given that the Incentive Options are not able to be freely traded, we have further adjusted the values derived from the Binomial Model and Black-Scholes Formula to allow for the lack of marketability of the Incentive Options.

5.2 Valuation Assessment – 2017 Incentive Options

Valuation Parameters

The key variables applied in our assessment of the value of the 2017 Incentive Options are:

- valuation date – 1 April 2013, being the expected vesting date of the 2017 Incentive Options
- exercise price - $0.20 per share
- the risk free rate – 3.3% based on the current yield on New Zealand Government 15 December 2017 bonds
- the current market value of SmartPay shares - $0.105, being the one month VWAP to 31 January 2012
- volatility - 50% based on the observed volatility levels of movements in SmartPay's share price and for comparable companies
- the time to expiry – 31 March 2017, being the last day that Haymaker may exercise the 2017 Incentive Options
- expected distributions – assumed to be nil.

Dilutionary Effect

The Binomial Model and Black-Scholes Formula assume that the options are over existing shares. However, the Incentive Options are akin to warrants. SmartPay will need to issue new shares when the options are exercised and therefore the new shares will have a dilutionary effect. This is taken into account in our valuation.

We have assumed that the number of shares on issue prior to the exercise of the 2017 Incentive Options is 160,371,407, being the 130,371,407 shares currently on issue plus 10,000,000 shares from the exercise of the Haymaker 2014 Options and the 20,000,000 new shares that would be issued if the convertible notes are fully converted by 15 February 2013.

Discount for Restrictive Terms

The Binomial Model and Black-Scholes Formula assume that the options being valued can be sold on a secondary market. The terms of the Incentive Options forbid the trading of the options. Accordingly, a discount to the values derived from the Binomial Model and Black-Scholes Formula is required to reflect the restrictive terms. We have applied a discount of 20% to the values assessed under the Binomial Model and Black-Scholes Formula (adjusted for dilution).

5.3 Valuation Assessment – 2018 Incentive Options

The key variables applied in our assessment of the value of the 2018 Incentive Options are:

- valuation date – 1 April 2014, being the expected vesting date of the 2018 Incentive Options
- exercise price - $0.30 per share
- the risk free rate – 3.3% based on the current yield on New Zealand Government 15 December 2017 bonds
- the current market value of SmartPay shares - $0.105, being the one month VWAP to 31 January 2012
- volatility - 50% based on the observed volatility levels of movements in SmartPay's share price and for comparable companies
- the time to expiry – 31 March 2018, being the last day that Haymaker may exercise the 2018 Incentive Options
- expected distributions – assumed to be nil
- the dilutionary effect of the 2018 Incentive Options is taken into account
- discount for restrictive terms – 20%.

5.4 Valuation Conclusion

Based on the above, we assess the fair value of each 2017 Incentive Option to be in the vicinity of $0.018 and the fair value of each 2018 Incentive Option to be in the vicinity of $0.011. The total value of the 20,000,000 Incentive Options is in the vicinity of $290,000.

Value of Incentive Options

	Value per Option	No. of Options	Total Value $000
2017 Incentive Options	$0.018	10,000,000	180
2018 Incentive Options	$0.011	10,000,000	110
Total		20,000,000	290

6. Valuation of the Haymaker 2014 Options

6.1 Valuation Parameters

The key variables applied in our assessment of the value of the Haymaker 2014 Options are:

- valuation date – 1 January 2013, being the expected vesting date of the Haymaker 2014 Options
- exercise price - $0.15 per share
- the risk free rate – 2.8% based on the current yield on New Zealand Government 15 April 2015 bonds
- the current market value of SmartPay shares - $0.096, being the one month VWAP to 16 December 2011
- volatility - 50% based on the observed volatility levels of movements in SmartPay's share price and for comparable companies
- the time to expiry – 31 December 2014, being the last day that Haymaker may exercise the Haymaker 2014 Options
- expected distributions – assumed to be nil
- dilutionary effect – taken into account in our valuation assessment
- discount for restrictive terms – a discount of 20% has been applied.

6.2 Valuation Conclusion

Based on the above, we assess the fair value of each Haymaker 2014 Option to be in the vicinity of $0.010. The total value of the 10,000,000 Haymaker 2014 Options is in the vicinity of $100,000.

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

7.1 Sources of Information

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

- the draft SmartPay notice of special meeting
- the SmartPay 2010 and 2011 annual reports
- the SmartPay interim report for the 6 months to 30 September 2011
- the Consultancy Contract
- the Subscription Agreement
- share price data and shareholder data from NZX Data.

During the course of preparing this report, we have had discussions with and / or received information from SmartPay and SmartPay's legal advisers.

The Directors have confirmed that we have been provided for the purpose of this Independent Report with all information relevant to the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Report.

In our opinion, the information set out in this Independent Report is sufficient to enable the Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options.

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

7.3 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 SmartPay 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 SmartPay 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 special meeting issued by SmartPay and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

7.4 Indemnity

SmartPay 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. SmartPay 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.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 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.

8.2 Independence

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

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 voting in respect of the Incentive Options, the Haymaker Placement and the Haymaker 2014 Options. We will receive no other benefit from the preparation of this report.

8.3 Declarations

An advance draft of this report was provided to the Directors for their comments as to the factual accuracy of the contents of the report. 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.

8.4 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 special meeting to be sent to SmartPay 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 February 2011