



21 December 2018

Circular to Growers and Shareholders Update on progress of the Mackay Sugar Recapitalisation Plan

On 23 January 2018, the Noteholders approved, by way of Circulating Resolution, the extension of the term of the Notes for a period of 12 months, with the Notes now maturing on 5 April 2019.

As set out in clause 2.13 of the Explanatory Memorandum accompanying the Circulating Resolution, Mackay Sugar agreed to provide a formal Noteholder update on progress of the Mackay Sugar Recapitalisation Plan every 2 months, with the first update having been issued on 28 February 2018.

By way of further update, Mackay Sugar advises as follows:

Recapitalisation Plan

1. Mackay Sugar has received a non-binding indicative proposal from Nordzucker AG to subscribe for up to 70% of the share capital of Mackay Sugar Limited (**Indicative Proposal**).
2. Nordzucker is one of the leading sugar manufacturers in Europe and is headquartered in Braunschweig, Germany.
3. The Mossman Mill will not form part of the transaction.
4. The non-binding Indicative Proposal has received in-principle support from the board of Mackay Sugar but remains subject to a number of conditions, including:
 - agreement on the equity/debt contribution and share structure;
 - Foreign Investment Review Board approval;
 - Nordzucker Supervisory Board approval;
 - consent from Mackay Sugar's financiers;
 - approval of 75% of Mackay Sugar grower shareholders and investment shareholders;
 - re-implementing the CCS cane payment system before the 2019 season;
 - amendment to the Mackay Sugar constitution to allow for a majority investor and to convert the existing shares to reflect the finally agreed share structure; and
 - finalisation of the legally binding transaction documents.
5. The negotiations with Nordzucker are progressing and the parties are working towards finalising the transaction documents (which will be subject to satisfying a number of conditions precedent).
6. The final amount of equity and/or debt to be contributed by Nordzucker remains subject to negotiation. The agreed capital contribution will be utilised to undertake capital improvements on the mills, provide additional working capital and repay the \$2/t grower contribution.

7. Nordzucker is currently negotiating with the senior financiers to determine their level of support for the business going forward. Based on those discussions, Nordzucker will develop a debt/equity model for the binding transaction documents.
8. There will then need to be further discussion with FIIG and the Trustee as to the funding position for the Noteholders and how it could be addressed as part of the binding transaction documents. Given the Christmas and New Year period those discussions will likely take place in mid-January.
9. Members of the Nordzucker supervisory board and executive board have now travelled to Australia and have had a chance to meet with the growers and review the mills and cane areas.
10. The interactions with growers and shareholders since the non-binding indicative offer was made have been positive.
11. The transaction is scheduled to be completed in late March 2019 subject to binding agreement being reached between the parties and the timeliness of all necessary approvals.
12. Mackay Sugar has agreed to an exclusivity period until the end of December 2018 so that the parties may finalise negotiations and transaction documentation.
13. The State Government duty considerations are also continuing to be addressed.

Mossman

14. The separate process for the sale of Mossman mill as a stand-alone asset is continuing. We are continuing to work through the conditions precedent to the put and call option agreement (**Option Agreement**) which has been executed with Far Northern Milling Pty Ltd (**FNM**), an entity controlled by the sugar cane growers in the Mossman and Tablelands area, to facilitate a sale of the Mossman Mill.
15. At the request of FNM we have agreed to extend the date for satisfaction of the conditions precedent to the Option Agreement until 31 January 2019. These conditions precedent to the exercise of the Option Agreement continue to be progressed by both Mackay Sugar and FNM.
16. The agreement allows either Mackay Sugar or FNM to require the sale of the Mossman Mill subject to satisfaction of these conditions.
17. Along with the Mossman Mill assets, FNM would also assume all employee entitlements and other historical obligations relating to the Mossman Mill as well as payment of a nominal monetary consideration to Mackay Sugar.

2018 Season and Shed Meetings

1. The 2018 season was completed on 10 December 2018 in Mackay.
2. Grower Shed Meetings were held on 13 to 15 November with the main topics being a summary of the 2018 season performance and the Nordzucker proposal. These meetings provided growers and shareholders time to consider the information presented at the AGM on 30 October, and the opportunity to ask questions in smaller groups.

3. Recent bush fires have impacted 738ha of crop area in the Upper Valley and Blue Mountain areas. It is estimated that this area usually produces approximately 45,000 tonnes of cane each season. This will not be a total loss due to the crop's ability to recovery at this time of the growing season and due to rain being received across the region. A number of paddocks are showing good recovery after the rain.
4. Dry conditions had persisted to 3 December which was impacting non-irrigated areas. Since then all areas of the region have received effective rainfall. Most areas have received in excess of the long term average rainfall for the month of December.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Day', written in a cursive style.

Mark Day
CHAIRMAN AND CHIEF EXECUTIVE OFFICER