



1 December 2017

Dear Growers and Shareholders

This is my first update to you. I am honoured to have joined the Mackay Sugar Limited Board in May this year and then be elected Chairman in November. We are in a tough situation and need to work through this current situation together with you. I would like to commit to you that I will give the role my full attention to seek the best medium to long term outcome for you and this community. From my short time on the Board, I understand the difficult position we are in and I know that the MSL Directors are united and aligned in finding the best outcome we can to ensure a successful ongoing sugar industry in Mackay and Mossman.

I would like to keep this update brief and to the point as much as I can. We will follow up with shed meetings in the second half of January so we can have face to face discussions with you on the current position of the company.

In an attempt to manage the debt level some of the maintenance and capex funding of the mills and cane transport areas has had to be constrained. As a result we have seen a decline in mill performance from a lack of adequate investment in this area. This has occurred as a consequence of the high debt level, not as a consequence of the current management or Board's views of what was needed for maintenance and capex.

2017 season has seen a marginally improved crushing week on week versus 2016, however the factory rates and factory reliabilities are not at the level they should be to run a successful milling business or contribute to a successful sugar industry. I am sure that you see the impact of this daily in the bin supply at the sidings via the number of bins and zero hours. Performance is substandard and we need a strategy and funds to fix this over time. Given where we are now, it will take a few seasons to turn the operational performance around. It is not a one year fix. I have been through this situation before in a previous role.

Recapitalisation Process – (reducing MSL debt)

As stated in the 2017 annual report, the net debt as at 30 May 2017 was \$188M. When considering the amount of cash flow generated by the company this is at a significant level of debt and we need to deal with this as our first priority.

I know that there are various views about as to how we got into this position. Basically since the decision in 2009 to build the cogeneration business and then the purchase of Mossman, debt increased substantially (by more than \$165m) and the cash flow from these investments together with the existing business at that time has not met original forecasts. So the original objectives of these large investments have not provided the cash returns needed to properly service the debt associated with them. At the same time the core sugar business in Mackay has not had the earning capacity to counter the shortfalls in cash flow from these new investments due to sugar prices, crop size and importantly lower mill performance.

My view is that these were very large investments for the size of Mackay's business and they needed to achieve **all** of their originally stated forecasts to be a success, a very optimistic view for any new large project. Unfortunately all objectives have not been met and there have been some mediocre years in the sugar industry since 2009. So we find ourselves in the current position and we now have to solve this. If you follow the past investment decisions and the cash flow in the MSL annual reports, you can see what I have just outlined above. There is no value in looking backwards to blame people. There is value in looking

back to understand how it happened and learn from it. Now we have to take stock and find a solution and set in place a strategy that gives the whole industry the best chance of a successful future.

We are not the first sugar company to experience this situation and I am sure we will not be the last. Some 70 sugar mills are under financial restructuring in Brazil after a large expansion in the 2000's with new factories having been built and then the expected returns not eventuating in the following seasons. This does not help us but it is worth noting.

Going forward from now, if the opportunity arises, I will ensure that we have thorough due diligence and best practice reviews at Board and Management levels on any new investments. This is essential to manage the risk in investment activities.

Any major decisions on recapitalisation or restructuring of MSL will require 75% shareholder approval. So we will definitely not be in a position to commit to any proposal without first meeting this level of shareholder (your) approval. You (collectively) will have control over the final outcome of this process.

The Board engaged Kidder Williams to assist in identifying the funding needs of the company and recommending a process of raising the funds to satisfy the needs identified. A first option of selling the cogeneration business was investigated as part of the process to pay down debt and provide the identified funding level for the ongoing business. We received several indicative bids but the Board and Kidder Williams considered that a better option would be to seek out a partner for a part or the whole of the business.

The cogeneration business at Racecourse is an integral part of the whole operation and it is not easy to separate out this part of the operation as a separate business with another partner, and at the same time ensure that their objectives are fully aligned with the company's objectives of optimising the crushing of cane and making sugar. The boiler and power stations in the factories are the energy source (heart and lungs) of the factory, and having these in another ownership structure may have caused a number of issues resulting from a misalignment of business objectives. It could also constrain what we might want to do in the future. Given this the Board has put the option of selling the cogeneration business on hold.

Now we are investigating having another partner join the business to help recapitalise and/or restructure the business, and more importantly provide a long term effective solution for MSL and its growers in the region. We need to build up the reliability of the milling business to crush cane more reliably and efficiently and then invest in any future growth opportunities that make sense. So this is not just about paying down the debt or a financial transaction. It is also about having a company that MSL growers and shareholders can work effectively with into the future. Having a good relationship with a new partner will be critical for the long term stability of everyone relying upon MSL.

Kidder Williams have now approached a number of large sugar companies from around the globe and also other investors interested and knowledgeable in this sector.

The process is at an early stage. At present we are answering questions about MSL from interested parties and the next phase is to receive indicative offers from the groups that are interested in the opportunity. There is a lot of water to go under the bridge and many issues to work through before any proposal can be put forward to you our Shareholders. As a result there is not much more to say at present other than we are waiting for their proposals and then Kidder Williams, management and the Board will assess the options and move forward from there.

I know this Shareholder/Grower update to you will raise questions. I cannot hope to answer your questions here without writing a novel. So I ask for your patience and I confirm we will be organising shed meetings around the Mackay region so we can have a face to face discussion with you to answer your questions and hear your views. This I hope will be a more effective means of communication than updates like this one.

The Board understands that this is a major decision point for Mackay Sugar and all its Stakeholders and we all have responsibility to get the best outcome for this business's future. Your cane pays every year depend on it. Your farm value depends upon the success of MSL. Your MSL share price depends upon it. The employees in the farming, harvesting and milling sectors and all their families depend upon this industry for their livelihood. There is around \$400 million per year of revenue coming into and being distributed throughout the community so it is imperative that we work together to get the best overall outcome. We will get a better outcome working together, not divided.

Some people are worrying about the future of the industry. My view is that our mills will continue to crush and our sugar business has a future. If there is some change in ownership it should be viewed positively as it demonstrates an understanding and willingness to invest in the industry during tough times and take it forward. We need to remain internationally competitive so we must improve further. Working together, we can set this industry up for the next generation to have a future. Personally, I see that this is the task and opportunity we have in our hands.

Again, I and the Board give you our commitment that we will do our best to work through this process and communicate with you along the way. After we have finalised the options and presented these to you, you will be asked to decide the outcome via your 75% shareholder approval provision. So the final decision will be yours.

Regards,



Mark Day
CHAIRMAN

on behalf of the Board of MSL