

EFTEL LIMITED

ACN 073 238 178

**NOTICE OF GENERAL MEETING, EXPLANATORY STATEMENT
AND INDEPENDENT EXPERT'S REPORT**

TIME: 10.00am (WST)

DATE: 29 June 2011

PLACE: Citigate Hotel
707 Wellington St
PERTH WESTERN AUSTRALIA

This Notice of Meeting, Explanatory Statement and Independent Expert's Report should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisors prior to voting.

Should you wish to discuss the matters in this Notice of Meeting, Explanatory Statement or Independent Expert's Report please do not hesitate to contact the Company Secretary, Mr John Raffis on (+61 8) 9420 9999.

26 May 2011

Dear Fellow Shareholder

Re: Major Transaction

On 8 April, your company Eftel Limited (**ASX: EFT**) announced an in principle agreement to purchase ClubTelco Pty Ltd, a national ISP with offices in Queensland, Victoria and the Philippines. A formal transaction agreement was entered into on 18 April 2011.

ClubTelco is a very similar business to Eftel. It delivers around 60,000 services, including ADSL, fixed line telephony, VoIP, mobile broadband and mobile telephony, and generates approximately \$28M annual turnover. ClubTelco was formed by the founders and directors of Dodo, Australia's largest privately held telecommunications company, who have been an Eftel partner since 2008.

The transaction, which is subject to Eftel shareholder approval, will see your company double in size to 120,000 active services and in excess of \$55M annual turnover. The combined entity will employ more than 300 people located across offices in Manila, Kuala Lumpur, Melbourne, the Gold Coast and Perth.

The agreement will also see \$2.1M of additional equity capital injected by the new shareholders. Combined with the introduction of the ClubTelco business the new capital being brought into the business is estimated at \$9.6M. The shares will be issued at approximately 1.243cents each, representing an 18% premium to the one month weighted average price at the time of the announcement.

This proposed transaction brings the most significant opportunities to date to Eftel's growth plans. Apart from being your company's largest ever merger or acquisition deal, the proposed transaction introduces a fresh controlling interest in the form of the key stakeholders in Dodo. They are, without peer, this industry's organic growth champions.

Eftel's history is one of merger and acquisition, and we have continued to foreshadow that we would keep growing through this process. As already demonstrated by the market's reaction since we announced this deal, we believe it offers substantial upside to shareholder value. By contrast, we believe that continuing as a standalone entity presents very significant threats and challenges. Numerous companies of similar and even larger size have in recent years exited the marketed as standalone entities. We believe the present structure of the industry demands urgent scaling up.

As part of this deal we have also been able to attract the services of Scott Stavretis as the new CEO of your company. Scott has come across from Dodo, where he was responsible for the executive management and operations of the entire group. He has over 15 years of Internet and telecommunications experience. Since its inception in 2001, he has played a pivotal role in Dodo's growth into Australia's largest private telecommunications group. He was also responsible for forming related entities including Dodo Power & Gas and ClubTelco.

For personal use only

Scott is offering to personally put \$500,000 of investment into your company at the same price that has been offered by the other new investors. This is also subject to your approval. We believe this additional equity, taken in the first instance as loan funds, are essential for your company at this important phase of its development, and that Scott's sizeable personal investment will also give the shareholders at large greater confidence.

As part of the ClubTelco transaction process, your Board engaged William Buck in Sydney as an Independent Expert to review the proposed transaction. They have formed the view that this transaction is fair and reasonable to the existing Eftel shareholders.

This booklet contains your Notice of Meeting, Explanatory Statement and Independent Expert's Report. We have also enclosed your Proxy Form and Reply Paid Envelope. Your vote on this matter is very important and we trust you will participate in this process.

Thank you for your continued investment in Eftel.

Yours sincerely



Simon Ehrenfeld MBA MMR
Executive Chairman

About Eftel

Eftel Ltd is a multiple award winning Internet and telecommunications provider, with offices in Perth, Melbourne and Cyberjaya, Kuala Lumpur. Eftel operates wholesale, retail and corporate divisions.

Eftel Corporate is among Australia's most reliable ISPs, offering tailored solutions to business and government clients throughout Australia. It is a preferred supplier to the Victorian Government.

Eftel Retail is a Top 10 Internet Service Provider offering a full suite of consumer Internet products. It also operates the **aaNet** brand, which focuses on broadband services in the online discount market.

Eftel Wholesale services a quarter of Australia's ISPs with a range of services including IP, co-location, dialup ports and DSL Broadband.

On 18 April 2011, Eftel entered into a formal transaction agreement to purchase **ClubTelco**, which will double the size of the business. ClubTelco delivers ADSL, fixed line telephony, VoIP, mobile broadband and mobile telephony. ClubTelco was founded by the directors of Dodo Australia, the country's largest privately held telecommunications company. The transaction is subject to shareholder approval.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The general meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (WST) on 29 June 2011 at:

Citigate Hotel
707 Wellington St
PERTH, WESTERN AUSTRALIA

Registration commences 9.30am (WST).

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

NOTICE OF GENERAL MEETING

Notice is given that the general meeting of Shareholders will be held at 10.00am (WST) on 29 June 2011 at Citigate Hotel, 707 Wellington St, Perth.

The Explanatory Statement provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 7.00pm (EST) on 27 June 2011.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

AGENDA

1. RESOLUTION 1 – APPROVAL FOR CHANGE IN NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purpose of Listing Rule 11.1.2 of the Listing Rules of ASX Limited, and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities as described in the Explanatory Statement accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any of their associates. However, the company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. RESOLUTION 2 – ACQUISITION OF CLUBTELCO PTY LIMITED, PLACEMENT AND ACQUISITION OF RELEVANT INTEREST IN SHARES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolution 1, for the purpose of Section 611 Item 7 of the Corporations Act and for all other purposes, approval is given for:

- (a) *the Directors to allot and issue 772,517,287 Shares under a share placement as follows:*
 - (i) *603,529,130 Shares to ClubTelco Australia Pty Limited (CTA), as consideration for the acquisition of 100% of the ordinary fully paid shares in the issued capital of ClubTelco Pty Limited (ClubTelco) held by CTA;*
 - (ii) *113,222,065 Shares to Cannes Management Pty Limited in its capacity as trustee for Kestelman Family Trust No. 2 (Cannes Management), as consideration for the payment of \$1,407,000; and*

(iii) 55,766,092 Shares to MIS Investments Pty Limited in its capacity as trustee for Slepoy Family Trust No. 3 (**MIS Investments**), as consideration for the payment of \$693,000; and

(b) the acquisition of relevant interests in the shares of the Company in excess of a threshold prescribed by Section 606(1) of the Corporations Act by virtue of the shares referred to in (a) above,

on the terms and conditions set out in the Explanatory Statement."

Independent Expert's Report: Shareholders should carefully consider the independent expert's report prepared by William Buck for the purposes of shareholder approval required under Section 611 Item 7 of the Corporations Act. The independent expert's report comments on the fairness and reasonableness of the transaction to the non-associated shareholders in the Company.

Voting Exclusion: The Company will disregard any votes cast on this resolution by:

- (a) the persons proposing to make the acquisition and their associates; and
- (b) the persons (if any) from whom the acquisition is to be made and their associates.

3. RESOLUTION 3 – ISSUE OF SHARES ON CONVERSION OF CONVERTING LOAN – MR SCOTT STAVRETIS

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 40,225,261 Shares to Mr Scott Stavretis (and/or his nominee) on conversion of a converting loan on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Scott Stavretis (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 26 MAY 2011

BY ORDER OF THE BOARD



**JOHN RAFTIS
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 10.00am (WST) on 29 June 2011 at Citigate Hotel, 707 Wellington St, Perth.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. BACKGROUND

1.1 The Company

The Company is an Australian public company listed on the official list of ASX (ASX code: EFT) in the telecommunication services industry.

The Company is an Internet and telephony provider servicing the Australian market at the retail, corporate and wholesale levels. It has offices in Perth, Melbourne and Kuala Lumpur.

Resolution 1 seeks Shareholder approval for a change in the scale of the activities in the Company, being the acquisition of 100% of ClubTelco pursuant to the Share Purchase Agreement (refer to Sections 1.2 and 1.3 for further details in relation to the Share Purchase Agreement) (**Acquisition**), as required by ASX Listing Rule 11.1.2.

Resolution 2 seeks Shareholder approval for the allotment and issue of 772,517,287 Shares under a placement to CTA, Cannes Management and MIS Investments (**Subscribers**) pursuant to the Share Subscription Agreement (refer to Section 1.4 for further details in relation to the Share Subscription Agreement) (**Placement**) and in relation to the Acquisition.

1.2 Change of Scale of Activities – Acquisition of ClubTelco

On 19 April 2011, the Company announced to ASX that it had entered into a:

- (a) share sale and purchase agreement (**Share Purchase Agreement**) with CTA under which it was agreed that the Company would acquire 100% of the issued share capital in ClubTelco and in return, the Company would allot and issue 603,529,130 Shares to CTA; and
- (b) share subscription agreement with the Subscribers pursuant to which the Company would undertake a placement under which:
 - (i) CTA must subscribe for 603,529,130 Shares in consideration for the sale of 100% of the issued share capital in ClubTelco under the Share Purchase Agreement;
 - (ii) Cannes Management must subscribe for 113,222,065 Shares for \$1,407,000; and
 - (iii) MIS Investments must subscribe for 55,766,092 Shares for \$693,000,

(**Share Subscription Agreement**).

Each of the Subscribers has agreed to a voluntary escrow of their Shares for a period of 12 months from the date completion occurs.

1.3 Share Purchase Agreement

The following are the material terms of the Share Purchase Agreement:

- (a) **(Acquisition)**: the Company agreed to acquire 100% of the issued share capital in ClubTelco;
- (b) **(consideration)**: the consideration to be paid to CTA of \$7,500,000 will be satisfied through the issue by the Company of 603,529,130 Shares at a deemed issue price of 1.243 cents per Share;
- (c) **(conditions precedent)**: the conditions precedent to settlement of the Share Purchase Agreement, as contained in the Share Subscription Agreement are as follows:
 - (i) the shareholders at a general meeting of the Company approving:
 - (A) the Company allotting and issuing 603,529,130 Shares **(Consideration Shares)** in accordance with Section 611 Item 7 of the Corporations Act (after being given all the information required by that section) at which no votes are cast in relation to the resolution by CTA or by any person who is an Associate of CTA; and
 - (B) if required by ASX, the change to the nature or scale of the Company's activities arising out of the Acquisition for the purposes of ASX Listing Rule 11.1.2;
 - (ii) confirmation from ASX in writing that the ASX does not require the Company to comply with the requirements of ASX Listing Rule 11.1.3 for the purposes of the Acquisition; and
 - (iii) that, on the Subscription Date, the Company is not affected by an Insolvency Event.

If any of the conditions precedent is not satisfied or waived by 29 June 2011 (or such later date as agreed by the parties), the Transaction will not proceed. The Company confirms the condition precedent set out in paragraph 1.3(c)(ii) has been satisfied;
- (d) **(termination)**: the Share Purchase Agreement automatically terminates if the Share Subscription Agreement is terminated; and
- (e) **(representations and warranties)**: the Share Purchase Agreement contains representations and warranties provided by CTA that are usual for an agreement of this type.

1.4 Share Subscription Agreement

The following are the material terms of the Share Subscription Agreement:

- (a) **(Placement)**: pursuant to the Placement:
 - (i) CTA must subscribe for 603,529,130 Shares in satisfaction of the purchase price for the Acquisition;
 - (ii) Cannes Management must subscribe for 113,222,065 Shares for \$1,407,000; and

- (iii) MIS Investments must subscribe for 55,766,092 Shares for \$693,000;
- (b) **(consideration)**: the consideration is payable to Eftel as follows:
- (i) CTA's consideration is in the form of 100% of the issued capital in ClubTelco;
 - (ii) \$1,407,000 is payable by Cannes Management; and
 - (iii) \$693,000 is payable by MIS Investments;
- (c) **(conditions precedent)**: the conditions precedent to settlement of the Share Subscription Agreement are as set out in Section 1.3(c);
- (d) **(termination)**: the parties have the following rights to terminate the Share Subscription Agreement:
- (i) Eftel may terminate the agreement if:
 - (A) any of the Subscribers is affected by an insolvency event;
 - (B) any of the Subscribers does not remedy a breach of a material obligation of the Share Subscription Agreement, or CTA does not remedy a breach of a material obligation of the Share Purchase Agreement, within 7 days of notice of the breach being given;
 - (ii) the Subscribers may terminate the agreement if:
 - (A) Eftel is affected by an insolvency event;
 - (B) Eftel does not remedy a breach of a material obligation of the Share Subscription Agreement or Share Purchase Agreement within 7 days of notice of the breach being given;
 - (C) it appears to the Subscribers (acting reasonably) that there is a significant likelihood that completion under the Share Subscription Agreement will not occur; or
 - (D) Eftel gives the Subscribers notice that it has entered into discussions or any other arrangements with a third party in relation to a competing proposal;
- (e) **(break fee)**: a break fee equivalent to 1% of the value of the Transaction is payable in certain circumstances by the defaulting party if the non-defaulting party terminates the Share Subscription Agreement;
- (f) **(allotment and issue)**: the total of 772,517,287 Shares will be allotted and issued to the Subscribers in their respective proportions on the latest of:
- (i) the day which is 3 Business Days after satisfaction or waiver of the conditions referred to in Section 1.3(c); and
 - (ii) any other date, which is agreed in writing by the parties before the date referred to in Section 1.4(d)(i);

- (g) **(appointment of directors)**: following completion of the Transaction, the Subscribers may nominate a majority of the directors to be appointed to the Board;
- (h) **(simultaneous completion)**: the Share Sale Agreement and the Share Subscription Agreement must complete simultaneously; and
- (i) **(voluntary escrow)**: the Subscribers have each agreed to a voluntary escrow of their Shares for a period of 12 months (subject to any takeover or scheme of arrangement being effected in relation to the Company or as otherwise agreed by the Company in the Company's discretion).

1.5 Acquisition of ClubTelco

ClubTelco is a private company and was incorporated in Australia. ClubTelco is an internet and telephony provider with offices in the Gold Coast, Melbourne and Manila.

ClubTelco delivers around 60,000 services, including ADSL, fixed line telephony, VoIP, mobile broadband, mobile telephony and generates approximately \$28M annual turnover. ClubTelco was formed by the founders and directors of Dodo, Australia's largest privately held telecommunications company, who have been the Company's wholesale partners since 2008.

Under the Share Purchase Agreement, the Company has agreed to acquire 100% of the issued share capital in ClubTelco.

1.6 Information on the Company post-completion of the Transaction

Related party post-Acquisition considerations

Prior to the Company entering into the Share Purchase Agreement with CTA, ClubTelco has been a party to a number of agreements with entities associated with CTA and its directors. Upon completion of the Transaction, CTA and its associates will control the Company and as a result, these agreements may be considered to be "related party transactions", however, as described below, the Subscribers have advised the Company that these transactions are all on terms which would be reasonable in the circumstances if the Company and the related party were dealing at arm's length (or less favourable to the related party). Details of these transactions are as follows:

- (a) Dodo Wholesale Pty Ltd – provision of wholesale telecommunications services

Dodo Wholesale Pty Ltd is a company controlled by Larry Kestelman and Michael Slepoy and provides wholesale telecommunications services, including fixed line, mobile, ADSL broadband and mobile broadband services to ClubTelco. The terms and conditions on which such services are provided to ClubTelco are commercial in confidence, but the provisions are generally consistent with the terms on which Dodo Wholesale Pty Ltd provides such services to other parties, including Eftel.

- (b) Infinite Rewards Pty Ltd – provision of loyalty program services

Infinite Rewards Pty Ltd is a company controlled by Larry Kestelman and Michael Slepoy and operates the Infinite Rewards loyalty program which provides retail benefits to members of the program. The agreement between Infinite Rewards Pty Ltd and ClubTelco provides for ClubTelco's

customers to join the Infinite Rewards loyalty program at no additional cost to the customer. The terms of the agreement are commercial in confidence, but the provisions are generally consistent with the terms on which Infinite Rewards Pty Ltd provides such services to other parties.

(c) Acquire Asia Pacific (Philippines), Inc

Acquire Asia Pacific (Philippines), Inc is a Philippines company controlled by Larry Kestelman and Scott Stavretis and operates a call centre based in the Philippines. Under the agreement between Acquire and ClubTelco, Acquire provides call centre and online marketing services to ClubTelco. The terms of the agreement are commercial in confidence, but the provisions are generally consistent with the terms on which Acquire Asia Pacific (Philippines), Inc provides such services to other parties, including Eftel.

Pro-forma capital structure

The effect that the Transaction and Resolutions 2 & 3 contained within the Notice will have on the capital structure of the Company is as follows:

Shares		Number
Current		249,458,707
<i>Placement of Shares to CTA</i>		<i>603,529,130</i>
<i>Placement of Shares to Cannes Management</i>		<i>113,222,065</i>
<i>Placement of Shares to MIS Investments</i>		<i>55,766,092</i>
Total Placement Shares to Subscribers		772,517,287
Issue of Shares to Scott Stavretis under Resolution 3		40,225,261
TOTAL		1,062,201,255
Options		
Current		Nil
TOTAL		Nil

1.7 Indicative timetable

The anticipated timetable for the settlement of the Transaction and the balance of the matters referred to above is set out below.

Event	Date
Announcement of Transaction	8 April 2011
Execute Share Purchase Agreement and Share Subscription Agreement	18 April 2011
Dispatch of Notice and Independent Expert's Report	26 May 2011
General Meeting	29 June 2011
Completion under Share Purchase Agreement and Share Subscription Agreement	30 June 2011

1.8 Advantages of the Transaction

The Directors are of the view that the following non-exhaustive list of advantages, as contained in the Independent Expert's Report, may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions:

- (a) **Consideration is fair:** The Independent Expert considers that consideration under the Transaction is fair.
- (b) **New and experienced management:** Approval of the Transaction will introduce a new management to the Company bringing significant experience, skills and contacts in providing telecommunication and Internet services;
- (c) **Introduction of strategic investors:** Approval of the Transaction will introduce key strategic investors, including interests connected with Mr Kestelman and Mr Slepoy (who are co-owners of the Dodo Australia Group of Companies) which, in combination with other benefits noted, should assist in establishing a stronger market presence;
- (d) **Significant synergy benefits:** Approval of the Transaction can potentially deliver synergy benefits to the Company over and above those quantified as part of our "fairness" assessment. The realisation of these cost saving benefits is expected to improve the Company's profitability;
- (e) **Injection of capital:** The approval of the Transaction will result in an additional \$2,100,000 of equity capital being injected into the Company which will help facilitate completion of the Company's strategic initiatives and provide working capital for future growth;
- (f) **Avoidance of drain on capital:** The approval of the Transaction will result in the Company acquiring ClubTelco by way of the issue of shares without the need to incur significant capital raising costs or commit to loan finance that would include interest costs and regular principal repayments;
- (g) **Removal of existing uncertainties:** The Company's quoted share price has been adversely affected by the uncertainty as to going concern expressed in the auditor's audit reports and auditor's review reports issued in respect of the Company's recent financial reports. Approval of the Transaction should result in the removal of the uncertainty as to going concern expressed in the auditor's reports; and
- (h) **Increased market capitalisation:** The potential increase in the market capitalisation of the Company may lead to increased coverage from capital market analysts, improved access to equity capital market opportunities and increased liquidity in its share trading.

1.9 Disadvantages of the Transaction

The Directors are of the view that the following non-exhaustive list of disadvantages, as contained in the Independent Expert's Report, may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions:

- (a) **Existing Shareholders' interest in the Company will be diluted:** By approving the Transaction the interests of the non-associated Shareholders will be diluted;

- (b) **Loss of control:** Approval of the Transaction will result in entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS Investments) becoming entitled to between 72.7% and 75.6% of the Company's enlarged share capital – please refer to section 1.2 of the Independent Expert's Report. Accordingly, the existing non-associated Shareholders will effectively lose control of the Company;
- (c) **Risk of not achieving synergies:** A significant part of the value expected from the approval of the Transaction is in the form of the expected synergy benefits, in particular the synergy benefits arising from the restructure of the Company's wholesale service purchase arrangements – please refer to section 8 of the Independent Expert's Report. Notwithstanding that the Independent Expert's analysis includes a provision of the potential risk of not achieving the identified synergy benefits, by approving the Transaction the non-associated Shareholders will be exposed to the risk that the synergy benefits may not be achieved to the extent expected. This will result in the ultimate value of the synergy benefits being less than the value assessed in the Independent Expert's Report and may result in the fair value of the assets being acquired under the Transaction being less than the fair value of the Shares to be issued under the Transaction; and
- (d) **Investment in relatively 'early stage' business:** Whilst the ClubTelco business has been established for some years, it has been in CTA's ownership for less than a year. Accordingly, the full potential of ClubTelco has yet to become fully evident under its existing ownership.

1.10 Advantages and Disadvantages of not approving the Transaction

As outlined in the Independent Expert's Report, the significant advantages and disadvantages of rejecting the Transaction include the reverse of the matters noted above (in 1.8 and 1.9), as well as the following:

- (a) **Ability to pursue alternative investments:** By not approving the Transaction the Company will be able to continue to explore alternative potential acquisitions and investments. However, the Independent Expert noted that whilst alternative investments may be pursued by the Company there is no guarantee that feasible opportunities may emerge; and
- (b) **Post announcement share price:** The Independent Expert noted that the Company's Share price increased significantly following the announcement of the Transaction. Failure to approve the Transaction may result in a fall in the Company's share price to the level prevailing prior to the announcement of the Transaction.

2. RESOLUTION 1 – APPROVAL FOR CHANGE IN NATURE AND SCALE OF ACTIVITIES

2.1 General

Resolution 1 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company. Upon the successful acquisition of 100% of the issued capital of ClubTelco in accordance with the terms and conditions of the Share Purchase Agreement, the Company will acquire 100% of the issued capital of ClubTelco. The Acquisition constitutes a significant change in the nature and/or scale of the Company's activities, and consequently requires approval pursuant to ASX Listing Rule 11.1.

2.2 ASX Listing Rule 11.1

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable. ASX Listing Rule 11.1.2 provides that, if ASX requires, the entity must get the approval of Shareholders and must comply with any requirements of ASX in relation to the Notice of Meeting.

The proposed Acquisition, as detailed in Section 1, will result in a change in the scale of the Company's activities. Listing Rule 11.1.2 requires the Company to obtain Shareholder approval for this type of transaction.

For this reason, the Company is seeking Shareholder approval for the Company to change the nature and scale of its activities under ASX Listing Rule 11.1.2.

3. RESOLUTION 2 – ACQUISITION OF CLUBTELCO PTY LIMITED, THE PLACEMENT AND ACQUISITION OF RELEVANT INTEREST IN SHARES

3.1 General

As outlined in Section 1 of this Explanatory Statement, the Company and CTA have entered into a Share Purchase Agreement under which the Company has agreed to acquire and CTA has agreed to sell 100% of the share capital in ClubTelco.

The consideration to be paid to CTA will be satisfied through the issue of the Consideration Shares to CTA by the Company at a deemed issue price of approximately 1.243 cents per Share, pursuant to the Share Subscription Agreement.

In addition, the Share Subscription Agreement provides for the further issue by the Company of 113,222,065 Shares to Cannes Management for \$1,407,000 and 55,766,092 Shares to MIS Investments for \$693,000 (the issue price of the Shares to each being approximately 1.243 cents per Share).

3.2 Item 7 of Section 611 of the Corporations Act

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting Shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or

- (iii) a body corporate that is controlled by an entity that controls the first person; or
- (b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or influencing the composition of the Company's board or the conduct of the Company's affairs; or
- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the Company's affairs; or
- (d) the first person is a body corporate and the second person is:
- (i) a director or secretary of the body; or
 - (ii) a related body corporate; or
 - (iii) a director or secretary of a related body corporate.

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Item 7 of Section 611 of the Corporations Act provides an exception to the prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

As a result of entering into the Share Subscription Agreement and pursuant to the Transaction, CTA will acquire a relevant interest that is greater than 20% of the Company's shares.

Accordingly, Shareholder approval under Item 7 of Section 611 of the Corporations Act is required for Resolution 2.

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by William Buck.

The Independent Expert's Report is annexed to this Explanatory Statement.

3.3 Information prescribed by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under ASIC Regulatory Guide 74 and the Corporations Act in respect of obtaining approval pursuant to Item 7 of Section 611 of the Corporations Act.

(a) **The identity of the person making the acquisition and the person's Associates**

The acquirer of the relevant interest greater than 20% of the issued share capital of the Company is CTA.

The current director of CTA is Larry Kestelman (**Kestelman**).

The shareholders of CTA are Como Number 6 Pty Ltd (**Como Number 6**) and Capri Holdings Number 6 Pty Ltd (**Capri Holdings**). The sole shareholder of Como Number 6 is Michael Slepoy (**Slepoy**). The sole shareholder of Capri Holdings is Kestelman.

Slepoy is an Associate of CTA by virtue of controlling a company (Como Number 6) that controls CTA. Kestelman is an Associate of CTA by virtue of being a director of CTA and by virtue of controlling a company (Capri Holdings) that controls CTA.

Cannes Management and MIS Investments are also Associates of CTA by virtue of their acting in concert with CTA in relation to the Company's affairs, pursuant to the Share Subscription Agreement. Slepoy is the sole shareholder of MIS Investments and Kestelman is the sole shareholder of Cannes Management.

The registered corporate address of CTA is Level 14, 600 St Kilda Road, Melbourne, Victoria.

Currently, Cannes Management holds 12,393 Shares. Other than these Shares held by Cannes Management, no other shareholder or director of any member of CTA has a relevant interest in any Shares in the Company other than the:

- (i) 603,529,130 Shares proposed to be issued to CTA;
- (ii) 113,222,065 Shares proposed to be issued to Cannes Management; and
- (iii) 55,766,092 Shares proposed to be issued to MIS Investments,

under the Placement, subject to the passing of Resolution 1.

The Company is not aware of any other associates of the CTA shareholders for the purpose of section 611 of the Corporations Act.

(b) **The maximum extent of the increase in CTA's voting power in the Company that would result from the Transaction**

As at the date of this Notice, CTA does not have a relevant interest in any Shares or Options. However, CTA's associate, Cannes Management, has a relevant interest in the 12,393 Shares.

The table set out below shows the maximum percentage of the Company's share capital that CTA and its Associates (also known as the Subscribers) will be entitled to and the voting power of CTA and its Associates upon the issue of the Shares under the Placement assuming:

- (i) Resolutions 1 and 2 pursuant to this Notice are passed and implemented;
- (ii) the Transaction is completed; and
- (iii) no Shares are issued other than the Shares pursuant to Resolution 2.

Entity	No. of Shares (% of Shares on issue) held as at the date of this Notice	No. of Shares (% of Shares on issue) held after Acquisition	Percentage change in interest in Company following Acquisition %
CTA	0 (0.000%)	603,529,130 (59.055%)	59.055
Cannes Management (Associate of CTA)	12,393 (0.005%)	113,234,458 (11.080%)	11.075
MIS Investments (Associate of CTA)	0 (0.000%)	55,766,092 (5.467%)	5.467
TOTAL	12,393 (0.005%)	772,529,680 (75.602%)	75.597

The 772,517,287 Shares to be issued to the Subscribers pursuant to the Transaction on top of the 12,393 shares already held by Cannes Management would give the Subscribers (CTA and its Associates) a total voting power in the Company of 75.602%.

- (c) **The voting power that CTA would have as a result of the Acquisition**
As set out in the table above.
- (d) **The maximum extent of the increase in the voting power of each of CTA's Associates that would result from the Acquisition**
As set out in the table above.
- (e) **The voting power that CTA's Associates would have as a result of the Acquisition**
As set out in the table above.
- (f) **The identity, associations (with CTA and any of its Associates) and qualifications of any person who it is intended will become a Director if Shareholders approve the Acquisition**

As set out in Section 3(g), the Subscribers will be appointing a majority of the directors to the Board on completion of the Transaction. At this stage, a decision has not yet been reached on the identities of the proposed directors, but pursuant to the Share Subscription Agreement, a proposed director must be eligible to act as a director under the Corporations Act,

be appropriately qualified and experienced and must not have any conviction for an indictable offence.

(g) **A statement of CTA's intentions regarding the future of the Company if Shareholders agree to the Acquisition**

Other than as disclosed elsewhere in this Explanatory Statement, at the date of this Notice of Meeting the Company understands that CTA and its Associates do not intend to:

- (i) make any significant changes to the business of the Company;
- (ii) inject further capital into the Company;
- (iii) make any changes to the future employment of the present employees of the Company;
- (iv) transfer any property between the Company and CTA or any person associated with any of them;
- (v) otherwise redeploy the fixed assets of the Company; and
- (vi) change significantly the financial or dividend policies of the Company.

Further details of the Transaction are set out throughout this Explanatory Statement. Shareholders are also referred to the Independent Expert's Report annexed to this Notice of Meeting.

(h) **Reasons for the Acquisition**

The Independent Expert in the Independent Expert's Report has stated that, in its opinion:

- (i) on balance, the advantages to the non-associated Shareholders of approving the Transaction outweigh the disadvantages; and,
- (ii) on balance, the disadvantages to the non-associated Shareholders of not approving the Transaction outweigh the advantages.

The Board concurs with the Independent Expert's opinion.

The advantages and disadvantages of the Transaction (which are relevant to how Shareholders' decide to vote on Resolution 2) are set out in Sections 1.8, 1.9 and 1.10 of this Notice.

(i) **Interests and Recommendations of Directors**

The Directors do not have any personal interests in the outcome of Resolution 2 and recommend that Shareholders vote in favour of Resolution 2 as they consider the proposed issue of Shares to the Subscribers to be in the best interests of Shareholders for the following reasons:

- (i) following completion of the Acquisition, the Company will grow to approximately twice its original size as it expands to incorporate ClubTelco's business. The Directors consider the current size of the Company to be sub-scale in the present Internet and telecommunications service provider environment. Numerous

companies of similar and even larger size have in recent years exited the market as standalone entities. This list includes but is not limited to Westnet, Netspace, Chariot, AAPT Consumer Division and People Telecom. While recent restructuring has significantly improved the Company's operating performance since January, there is a finite amount of ongoing gain likely to be made from future restructuring efforts. The Directors believe that scaling up to be part of a larger entity is critical to the Company's future viability;

- (ii) the change in scale of the Company's activities could attract new investors and may allow the Company to more readily raise additional working capital (if required). As such, the Company may increase the resources available to it to fund future expansion, which may increase its ability to generate future profits;
- (iii) the Placement will result in an additional \$2,100,000 equity capital being injected into the Company;
- (iv) the Company will acquire 100% of ClubTelco and its business under the Share Purchase Agreement. The Company will acquire this interest by the issue of the Consideration Shares (subject to relevant approvals) and will not have to undertake significant capital raising costs or commit to loan finance that would include interest costs and regular principal repayments;
- (v) the Independent Expert has determined the issue of Shares to the Subscribers to be **fair and reasonable** to the non-associated Shareholders; and
- (vi) The Company's Share price has risen significantly on the announcement of the Transaction, and the liquidity in Share trading has improved. The Directors believe that, upon approval of the Transaction, many new business opportunities are likely to become available for the Company that could retain and build upon this new shareholder wealth.

(j) **Impact on the Company if the Transaction is not approved**

In the interests of ensuring that Shareholders are fully informed when considering and voting on the Transaction, the Directors are of the view that the following matters are important considerations for Shareholders in terms of what the impact on the Company will be if Resolution 2 is not approved:

- (i) in the Company's half-yearly report released on 28 February 2011, the Directors noted certain conditions under which the Company would be able to continue as a going concern. These conditions included ongoing support from suppliers. If the Transaction is not approved, some of those suppliers may need to withdraw that ongoing support;
- (ii) the proposed sale of the Company's Multi-Service Access Node (**MSAN**) Network has not progressed in the timeframe initially anticipated, and pending completion of the Transaction, the directors are considering whether to temporarily defer any sale of the MSAN Network until post-completion of the Transaction, which may enhance the saleability and value of the MSAN Network. If completion of the Transaction does not occur, the Company will

necessarily be required to sell the MSAN Network and/or other assets in a relatively short timeframe in order to ensure it can continue to meet its commitments;

- (iii) ClubTelco brings strategic and management expertise from key stakeholders connected with Dodo Australia Pty Ltd (**Dodo**), the Country's largest private telecommunications group. Dodo is the Company's largest customer, supplier and lender. The Company and Dodo have worked informally together over a number of years, and formally for 3 years. The relationship is highly developed and the merger with ClubTelco is anticipated to be very manageable. Rejection of the Transaction would be damaging to this key financial and business relationship; and
- (iv) the Company's Share price has risen significantly on the announcement of the Transaction. The Directors believe that if the Transaction is not approved, that the Share price may fall to the level, or below the level, prevailing prior to the announcement of the Transaction.

(k) **Independent Expert's Report**

The Independent Expert's Report prepared by William Buck sets out a detailed examination of the proposed Transaction to enable non-associated Shareholders to assess the merits and decide whether to approve the issue of Shares to the Subscribers.

To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the Transaction and concludes that the issue of Shares to the Subscribers is **fair and reasonable** to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

4. RESOLUTION 3 – ISSUE OF SHARES ON CONVERSION OF CONVERTING LOAN – MR SCOTT STAVRETIS

4.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 40,225,261 Shares to Mr Scott Stavretis pursuant to a converting loan between the Company and Mr Scott Stavretis (**Loan**).

The Company has entered into a converting loan agreement for the Loan on the following terms and conditions:

- (a) **(Facility Limit)**: The facility limit amount of the Loan will be \$500,000 (**Loan**).
- (b) **(Interest)**: Interest will be calculated daily on the amount outstanding at a rate of 19.20% per annum until such time as:
 - (i) the Loan is converted in full into Shares; or
 - (ii) the Loan and all outstanding moneys have been repaid in full.

Interest will not be capitalised, but will be paid monthly in arrears.

- (c) **(Conversion):** Mr Scott Stavretis may at his election, direct the Company to satisfy the repayment of all or any part of the Loan (excluding interest) by applying it in payment for the subscription of Shares in the Company by Mr Scott Stavretis at a price per Share of 1.243 cents.
- (d) **(Condition Precedent to Conversions):** Conversion of the Loan into Shares is subject to and conditional upon the Shareholders approving Resolution 3 on or before 30 June 2011 for the issue of Shares to Mr Scott Stavretis upon conversion of the Loan.
- (e) **(Repayment):** The Loan must be fully and finally repaid, together with all outstanding moneys (including interest):
- (i) if shareholder approval is not obtained on or prior to 30 June 2011 pursuant to this Resolution 3, on 10 August 2011; or
 - (ii) if shareholder approval is obtained on or prior to 30 June 2011 pursuant to this Resolution 3 but the Loan is not converted on or before 30 June 2011, on 10 August 2011.
- (f) **(Security):** The Loan is unsecured.

By seeking approval for the issue of Shares for the Loan pursuant to this Resolution 3, the Company will have the flexibility to pursue the optimum equity/debt structure as required.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

Mr Stavretis is a related party of the Company because it is proposed that he will be appointed to the Board of Directors of the Company at some point in the future.

However, the Board considers that the exception contained in Section 210 of the Corporations Act applies to this transaction. Accordingly, Shareholder approval is not being sought for the purpose of Section 208 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of Shares to Mr Stavretis.

A further effect of Resolution 3 will allow the Directors to issue the Shares during the period of 1 month after the General Meeting (or a longer period, if allowed by ASX), without using the Company's annual 15% placement capacity.

4.2 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of Shares:

- (a) the Shares are being issued to Mr Scott Stavretis (and/or his nominee);
- (b) the maximum number of Shares to be issued on conversion of the Loan is 40,225,261 (being \$500,000, the loan amount, divided by 1.243 cents, the deemed issue price of the Shares);
- (c) the Shares will be issued no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Shares will be issued on one date;
- (d) the Shares will be issued at a deemed issue price of 1.243 cents per share;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares. However, Mr Stavretis has agreed to a voluntary escrow of his Shares for a period of 12 months from the date the Shares are issued; and
- (f) funds advanced under the Loan have been used towards working capital. Assuming Mr Stavretis delivers to the Company a conversion notice and the Shares are issued, the Shares will satisfy the Loan, and no funds will be raised from their issue. However, the issue of the Shares will obviate the need to raise additional capital or use existing capital to repay the Loan.

However, Shareholders should be aware that, as set out in Section 4.1(e)(ii) above, if the conversion of the Loan is not approved by Shareholders prior to 30 June 2011, the Loan must be repaid by the Company by 10 August 2011.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Shares to Mr Stavretis as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the Shares will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

4.3 Interests and Recommendations of Directors

The Directors do not have any personal interests in the outcome of Resolution 3 and recommend that Shareholders vote in favour of Resolution 3 as they consider the proposed issue of Shares to the Mr Stavretis to be in the best interests of Shareholders for the following reasons:

- (a) the additional equity, which has been received in the first instance as loan funds, is required by the Company at this important phase of its development; and
- (b) by making a sizeable personal investment, Mr Stavretis will have a stronger incentive and commitment to the Company going forward.

5. ENQUIRIES

Shareholders are requested to contact Mr John Raffis on (+ 61 8) 9420 9999 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

Acquisition means the proposed transaction in which the Company will acquire 100% of the issued capital of ClubTelco from CTA in return for the Company allotting and issuing the Consideration Shares to CTA, pursuant to the Share Purchase Agreement and the Share Subscription Agreement.

Associate has the meaning given by the Corporations Act to the term “associate” for the purposes of Section 611 of the Corporations Act including as interpreted by law.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year’s Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Cannes Management means Cannes Management Pty Limited (ACN 104 506 532) in its capacity as trustee for Kestelman Family Trust No 2.

Capri Holdings means Capri Holdings Number 6 Pty Ltd (ACN 143 997 924).

ClubTelco means ClubTelco Pty Limited (ACN 144 488 620).

Como Number 6 means Como Number 6 Pty Ltd (ACN 143 998 725).

Company means Eftel Limited (ACN 073 238 178).

Consideration Shares means the 603,529,130 Shares that will be issued and allotted to CTA, pursuant to the Share Subscription Agreement, subject to Shareholder approval of Resolution 2.

Corporations Act means the *Corporations Act 2001* (Cth).

CTA means ClubTelco Australia Pty Limited (ACN 144 000 135).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

General Meeting or **Meeting** means the meeting convened by the Notice.

Independent Expert means William Buck.

Independent Expert’s Report means the report undertaken by the Independent Expert advising Shareholders as to the fairness and reasonableness of the Acquisition, as annexed to this Notice.

Kestelman means Larry Kestelman.

Loan means the loan facility of \$500,000, which subject to Shareholder approval of Resolution 3, Scott Stavretis has agreed to lend the Company.

MIS Investments means MIS Investments Pty Limited (ACN 104 128 636) in its capacity as trustee for Slepoy Family Trust No 3.

Notice or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and the Proxy Form.

Option means an option acquire a Share in the Company.

Placement means the proposed Share placement under which the Company will issue and the Subscribers will subscribe for:

- (a) in the case of CTA, 603,529,130 Shares in consideration for the sale of 100% of the issued share capital in ClubTelco under the Share Purchase Agreement;
- (b) in the case of Cannes Management, 113,222,065 Shares for \$1,407,000; and
- (c) in the case of MIS Investments, 5,766,092 Shares for \$693,000.

Proxy Form means the proxy form accompanying the Notice.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

Share Purchase Agreement means the agreement between the Company and CTA under which the Company would purchase 100% of the issued share capital in ClubTelco and in return, the Company would allot and issue 603,529,130 Shares to CTA.

Share Subscription Agreement means the agreement between the Company and the Subscribers dated 18 April 2011 under which the Company would undertake the Placement to the Subscribers.

Slepoy means Michael Slepoy.

Subscribers means CTA, Cannes Management and MIS Investments.

Transaction means the Acquisition and the Placement.

William Buck means William Buck Corporate Advisory Services (NSW) Pty Limited (ACN 133 845 637).

WST means Western Standard Time as observed in Perth, Western Australia.

Eftel Limited

Independent Expert's Report and Financial Services Guide

26 May 2011

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Melbourne
Brisbane
Perth
Adelaide
Auckland

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26 May 2011

The Independent Directors
Eftel Limited
1141 Hay Street,
Perth, WA, 6005

Dear Sirs,

Eftel Limited **Independent Expert's Report: Share Placement and Acquisition of Club Telco Pty Ltd**

Introduction

The Directors of Eftel Limited ("**Directors**" and "**Eftel**" or the "**Company**" respectively) have engaged William Buck Corporate Advisory Services (NSW) Pty Limited ("**William Buck**" or "**we**" or "**us**" or "**our**" as appropriate) to prepare an independent expert's report ("**Report**") in relation to the approval of the Company entering into a share subscription agreement pursuant to which the Company will allot and issue 772,517,287 fully paid ordinary shares in Eftel ("**Shares**") as follows:

- 603,529,130 Shares issued at approximately 1.243 cents per share (the "**Consideration Shares**") to ClubTelco Australia Pty Limited ("**CTA**") as consideration for the acquisition of 100% of the issued shares of ClubTelco Pty Limited ("**ClubTelco**") (the "**Acquisition**");
- 113,222,065 Shares to Cannes Management Pty Limited ("**Cannes Management**") in its capacity as trustee for the Kestelman Family Trust No. 2 in consideration for the payment of \$1,407,000 (the "**Cannes Placement**"); and
- 55,766,092 Shares to MIS Investments Pty Limited ("**MIS**") in its capacity as trustee for the Slepoy Family Trust No. 3 in consideration for the payment of \$693,000 (the "**MIS Placement**").

The Cannes Placement and the MIS Placement are collectively referred to as the "**Placements**" and the Placements and the Acquisition are collectively referred to as the "**Proposed Transaction**".

We note that the Proposed Transaction forms one resolution to be approved by shareholders of Eftel. Accordingly, we have assessed the Proposed Transaction in terms of its overall effect as it is not meaningful to assess the individual elements of the Proposed Transaction separately.

The Proposed Transaction was announced by Eftel on 8 April 2011 (the "**Announcement Date**"). In this Report any valuations undertaken are as at 7 April 2011 (the "**Valuation Date**"), being the day prior to the Announcement Date.

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We understand that Cannes Management and MIS are associates of Mr Larry Kestelman and Mr Michael Slepoy. We understand that CTA's ultimate beneficial shareholders are also associates of Mr Larry Kestelman and Mr Michael Slepoy. Accordingly, on completion of the Proposed Transaction, entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) will be entitled to between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report.

Further details of the Proposed Transaction are set out in Section 1.1 of our Report

Purpose of Report

The Proposed Transaction is subject to Sections 606 and 611 of the Corporations Act 2001 ("**Act**"). Unless allowed by other provisions, Section 606 of the Act ("**Section 606**") does not allow a person to acquire a relevant interest in the issued voting shares of a listed company if, by entering into the transaction, their (or someone else's) voting power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point above 20% and below 90%.

As noted, if the Proposed Transaction is approved, entities associated with Mr Larry Kestelman and Mr Michael Slepoy will be entitled to between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report.

Section 611 of the Act ("**Section 611**") provides an exemption to Section 606 if the Proposed Transaction is approved by a resolution of the shareholders at a general meeting called for that purpose.

Section 611 requires shareholders to be given all relevant information known to the person making the acquisition, their associates or the company, which is material to the proposal.

Whilst Section 611 does not explicitly state that an expert's opinion is required in relation to such acquisitions, regulatory guidance issued by the Australian Securities and Investments Commission ("**ASIC**") states that it is the Directors' obligation to provide shareholders with full and proper disclosure so as to enable them to assess the merits of the proposal, and to decide whether to agree by resolution to the proposed acquisition. This obligation may be satisfied by commissioning an independent expert's report on whether the proposed transaction is "fair" and "reasonable" to the non-associated shareholders. The non-associated shareholders are those shareholders in Eftel whose votes are not to be disregarded in voting on the resolutions relating to the Proposed Transaction ("**Non-Associated Shareholders**").

This Report is to accompany the Notice of General Meeting and Explanatory Memorandum ("**EM**") being provided to the shareholders of Eftel ("**Shareholders**") and has been prepared to assist the Directors in fulfilling their obligation to provide Shareholders with full and proper disclosure so as to enable them to assess the merits of the Proposed Transaction and to assist them in their consideration of whether or not to approve resolutions relating to the Proposed Transaction.

The purpose of our Report is to express an opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of Eftel.

Our Report has been prepared solely for use of the Directors of Eftel, and for the purpose set out herein. William Buck does not accept any responsibility for the use of our Report outside this purpose. Except in accordance with the stated purpose, no extract, quote, or copy of our Report, in whole or in part, should be reproduced without the written consent of William Buck, as to the form and context in which it may appear.

Scope of Report

Our procedures in preparing this Report have been limited to those procedures we believed are required in order to form our opinion. Our procedures included an analysis of financial information and accounting records. However, the procedures did not include verification work nor did they constitute:

- an audit in accordance with Australian Accounting Standards (“**AUS**”);
- an assurance engagement in accordance with Australian Standards on Assurance Engagements (“**ASAE**”); or
- a review in accordance with Australian Standard on Review Engagements (“**ASRE**”).

The assessment of whether or not the Proposed Transaction is fair and reasonable will necessarily involve us determining the “fair market value” of various securities, assets and interests. For the purposes of our opinion, the term “fair market value” is generally defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.

We have treated any valuations undertaken in connection with our assessment of the Proposed Transaction as “full scope valuations” under Accounting Professional and Ethical Standard (“**APES**”) 225 – Valuation Services.

By their very nature, any valuation assessment is necessarily the subject of uncertainty and volatility and the conclusions arrived at will include considerations that are dependent on the exercise of individual judgement. Accordingly, there is unlikely to be an “indisputable value”, and we have expressed our opinion regarding values as falling within a likely range.

This Report is based upon financial and other information provided by Eftel and ClubTelco. William Buck has considered and relied upon this information. William Buck believes the information provided to be reliable, complete and not misleading, and has no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable.

William Buck does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether the Proposed Transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

Bases of Evaluation

In assessing the Proposed Transaction, we have considered the provisions of the Act, the matters set out in various ASIC Regulatory Guides (“RG”), and any other relevant pronouncements insofar as they may be applicable to this Report, including the following:

- RG 111: Content of Expert Reports;
- RG 112: Independence of Experts; and
- RG 170: Prospective Financial Information.

In addition, we will have regard to the provisions of various APESs, including APES 225: Valuation Services.

As there is no legal definition of the expressions “fair” and “reasonable” in the Act, we have considered guidance provided by the RGs in assessing whether the Proposed Transaction is fair and reasonable from the perspective of the Non-Associated Shareholders.

RG 111 treats “fair” and “reasonable” as two distinct criteria. The transaction is “fair” if the value of the consideration offered is equal to or less than the value of the securities or assets being acquired and which are the subject to the transaction. The transaction will be “reasonable” if it is fair, or, despite being not fair, after considering other significant factors, there are sufficient reasons for the shareholders to accept the transaction.

In our opinion, the most appropriate basis on which to evaluate the Proposed Transaction is to assess the likely overall impact on the Non-Associated Shareholders and to form a judgement as to whether the expected benefits outweigh any disadvantages that might result from approving the transaction.

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered and compared the following:

- the fair market value of the consideration offered by Eftel with the fair market value of shares in ClubTelco to be acquired by Eftel under the Proposed Transaction and the other amounts payable by Cannes Management and MIS;
- the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is approved; and
- the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is not approved.

If applicable, we have considered whether or not an appropriate premium (for control or significant influence) is reflected in the consideration under the Proposed Transaction.

In our opinion, the Proposed Transaction is to be judged in terms of its overall effect. It is not meaningful to assess the individual elements of the Proposed Transaction separately.

Information

Our Report has been prepared on the basis of information made available to us up to the date of the Report. A list of specific documents referred to and relied upon in the preparation of our Report has been included at Appendix A. A listing of defined terms and abbreviations used in this Report is set out in Appendix B.

We reserve the right to review and amend all calculations and opinions included or referred to in our Report and, if we consider it necessary, to revise our Report in light of any information which becomes known to us after the date of the Report or if additional information not referred to in Appendix A is provided to us.

We note that an important part of the information base used in forming an opinion of the kind set out in this Report, consists of opinions and judgements of management. This type of information has been evaluated through analysis, enquiry and review to the extent practical. Often it is not possible, however, to externally verify or validate such information.

The statements and opinions expressed in this Report are made in good faith and have been based on information available as at the date of this Report. On completion of our review, we believe the information to be reliable, accurate, and prepared on a reasonable basis. We have relied upon information set out in Appendix A and have no reason to believe that any material information has been withheld from us. We have not performed anything in the nature of an audit or financial due diligence on the information provided for this opinion. No warranty of accuracy or reliability is given by William Buck or its affiliated companies and their respective officers and employees in relation to this information.

The opinions of William Buck are based on prevailing market, economic and other conditions at the date of this Report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion.

Prospective Financial Information

The information provided to us during the course of preparing this Report included limited prospective financial information with respect to both Eftel and ClubTelco. The achievability of the prospective financial information is not warranted or guaranteed by either Eftel, ClubTelco or William Buck.

The prospective financial information received with respect of Eftel related to the years ending 30 June 2011 and 30 June 2012. Given that the achievement of the prospective financial information in respect of Eftel is dependent on the outcome of various strategic and cost saving measures currently in the process of being implemented we have not reviewed or relied upon any prospective financial information in respect of Eftel in preparing this Report.

The prospective financial information received with respect of ClubTelco related to the year ending 30 June 2011. Given the relatively limited historical trading information available in respect of ClubTelco any prospective financial information in respect of its business would necessarily be subject to significant uncertainties. Accordingly, in preparing this Report we have not reviewed or relied upon any prospective financial information in respect of ClubTelco.

Qualifications and Independence

Details of the experience and qualifications of the Directors of William Buck responsible for the preparation of this Report and the independence of William Buck in connection with Eftel, CTA, ClubTelco and the Proposed Transaction which is the subject of this Report are set out in Section 10 of this Report.

Summary of Opinion

We have considered the terms of the Proposed Transaction and conclude that the Proposed Transaction is both fair and reasonable to the Non-Associated Shareholders of Eftel.

In our opinion, the Proposed Transaction will be fair and reasonable if:

- the fair market value of the shares in ClubTelco to be acquired by Eftel, together with the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco and the amount to be received for the Placements under the Proposed Transaction, is greater than the fair market value of the shares in Eftel being offered under the Proposed Transaction;
- on balance, the advantages to the Non-Associated Shareholders of approving the Proposed Transaction outweigh the disadvantages; and
- on balance, the disadvantages to the Non-Associated Shareholders of not approving the Proposed Transaction outweigh the advantages.

Value Considerations

Based on our analysis, we set out below a summary of our valuation opinion in respect of the Proposed Transaction comprising a comparison between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction.

Our analysis has been undertaken on the alternative bases that:

- the Stavretis Loan (see section 1.3 of our Report) will not be converted into Eftel Shares; and
- the Stavretis Loan (see section 1.3 of our Report) will be converted into Eftel Shares if the Proposed Transaction is approved. If the Stavretis Loan is converted into Eftel Shares both the net assets of Eftel and the number of Eftel shares on issue will increase.

Table 1 – Assessment of Fairness

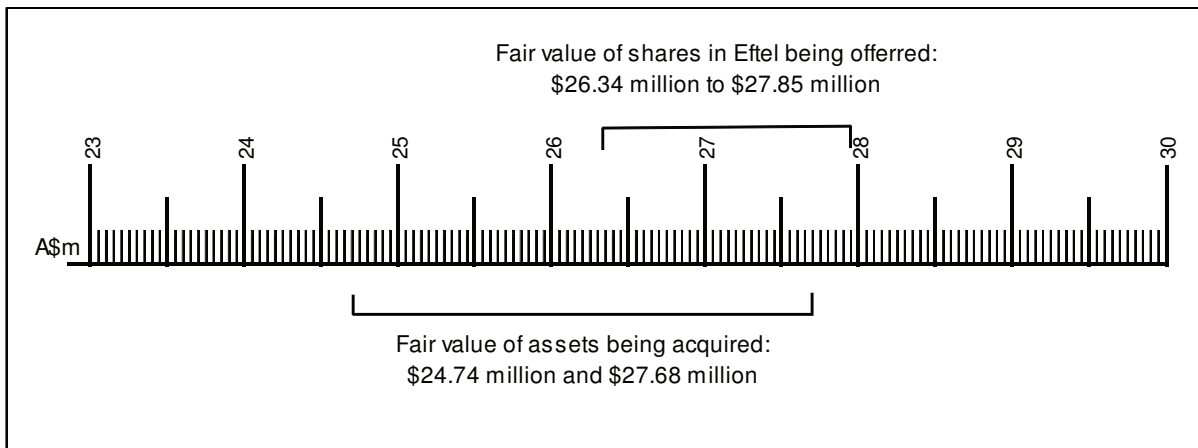
	Section Ref.	Assuming the the Stavretis Loan is not Converted		Assuming the the Stavretis Loan is Converted	
		Low Value	High Value	Low Value	High Value
Value of Assets being Acquired					
Value of shares in ClubTelco	7.4 & 7.5	\$8,032,645	\$9,552,876	\$8,032,645	\$9,552,876
Value of Cannes Placement	1.1	\$1,407,000	\$1,407,000	\$1,407,000	\$1,407,000
Value of MIS Placement	1.1	\$693,000	\$693,000	\$693,000	\$693,000
Value of Synergies	8.3	\$14,602,994	\$16,030,868	\$14,602,994	\$16,030,868
Value of Consideration Shares and Placements		\$24,735,639	\$27,683,744	\$24,735,639	\$27,683,744
Value of Eftel Consideration					
Value of Shares in Eftel - Controlling Interest	6.4	\$0.0341	\$0.0361	\$0.0311	\$0.0328
Number of Eftel Shares to be Issued under the Proposed Transaction:					
- Issue of Consideration Shares	1.1	603,529,130	603,529,130	603,529,130	603,529,130
- Issue of Shares under the Cannes Placement	1.1	113,222,065	113,222,065	113,222,065	113,222,065
- Issue of Shares under the MIS Placement	1.1	55,766,092	55,766,092	55,766,092	55,766,092
		772,517,287	772,517,287	772,517,287	772,517,287
Value of Consideration Shares and Placements		\$26,339,613	\$27,851,458	\$24,015,497	\$25,317,409

Source: William Buck

A graphic representation of the comparison of our valuation ranges is set out below:

Assuming that the Stavretis Loan is not Converted

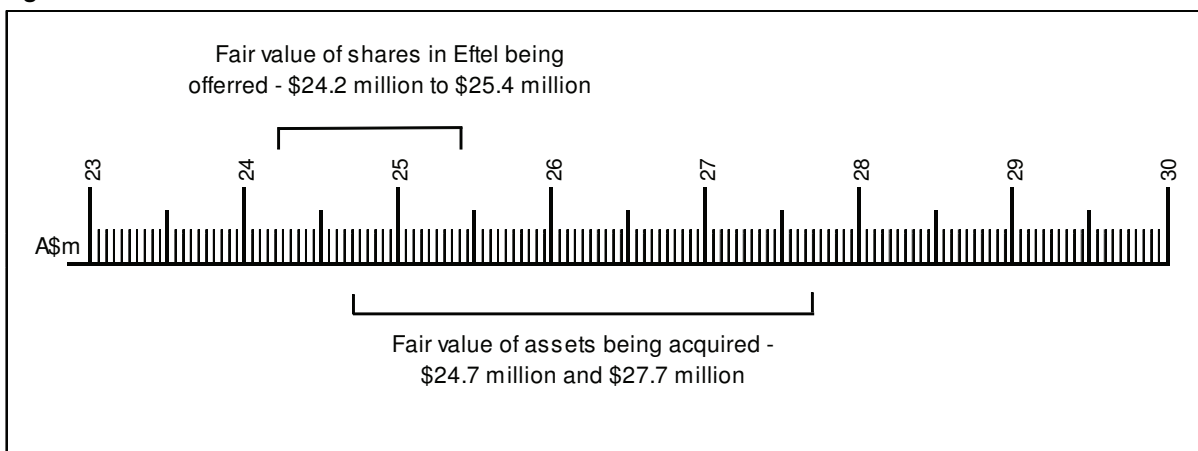
Figure 1



Source: William Buck: Approximate graphic representation only

Assuming that the Stavretis Loan is Converted

Figure 2



Source: William Buck: Approximate graphic representation only

It may be seen from the above that, under either scenario, there is an overlap between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction.

Accordingly, in our opinion, the Proposed Transaction is considered fair from the perspective of the Non-Associated Shareholders of Eftel.

Assessment of Reasonableness of the Proposed Acquisition

We have considered the following factors in determining whether or not the Proposed Transaction is reasonable to the Non-Associated Shareholders of Eftel.

Advantages of approving the Proposed Transaction

The following may be considered advantages of approving the Proposed Transaction:

- **Consideration is fair:** The consideration under the Proposed Transaction is fair;
- **New and experienced management:** Approval of the Proposed Transaction will introduce a new management to Eftel bringing significant experience, skills and contacts in providing telecommunication and Internet services.
- **Introduction of strategic investors:** Approval of the Proposed Transaction will introduce key strategic investors, including interests connected with Mr Kestelman and Mr Slepoy (who are co-owners of the Dodo Australia Group of Companies) which, in combination with other benefits noted, should assist in establishing a stronger market presence.
- **Significant synergy benefits:** Approval of the Proposed Transaction can potentially deliver synergy benefits to Eftel over and above those quantified as part of our “fairness” assessment. The realisation of these cost saving benefits is expected to improve Eftel’s profitability;
- **Injection of capital:** The approval of the Proposed Transaction will result in an additional \$2,100,000 of equity capital being injected into the Company which will help facilitate completion of Eftel’s strategic initiatives and provide working capital for future growth;
- **Avoidance of drain on capital:** The approval of the Proposed Transaction will result in Eftel acquiring ClubTelco by way of the issue of shares without the need to incur significant capital raising costs or commit to loan finance that would include interest costs and regular principal repayments;
- **Removal of existing uncertainties:** In our opinion, Eftel’s quoted share price has been adversely affected by the uncertainty as to going concern expressed in the auditor’s audit reports and auditor’s review reports issued in respect of Eftel’s recent financial reports. Approval of the Proposed Transaction should result in the removal of the uncertainty as to going concern expressed in the auditor’s reports; and
- **Increased market capitalisation:** The potential increase in the market capitalisation of Eftel may lead to increased coverage from capital market analysts, improved access to equity capital market opportunities and increased liquidity in its share trading.

Disadvantages of approving the Proposed Transaction

The following may be considered disadvantages of approving the Proposed Transaction:

- **Existing shareholders’ interest in the Company will be diluted:** By approving the Proposed Transaction the interests of the Non-Associated Shareholders will be diluted;
- **Loss of control:** Approval of the Proposed Transaction will result in entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) becoming entitled to between 72.7% and 75.6% of Eftel’s enlarged share capital – refer section 1.2 of our Report. According, the existing Non-Associated Shareholders will effectively lose control of Eftel;

- **Risk of not achieving synergies:** A significant part of the value expected from the approval of the Proposed Transaction is in the form of the expected synergy benefits, in particular the synergy benefits arising from the restructure of Eftel's wholesale service purchase arrangements – refer section 8 of our Report. Notwithstanding that our analysis includes a provision of the potential risk of not achieving the identified synergy benefits, by approving the Proposed Transaction the Non-Associated Shareholders will be exposed to the risk that the synergy benefits may not be achieved to the extent expected. This will result in the ultimate value of the synergy benefits being less than the value assessed in this Report and may result in the fair value of the assets being acquired under the Proposed Transaction being less than the fair value of the Eftel Shares to be issued under the Proposed Transaction; and
- **Investment in relatively 'early stage' business:** Whilst the ClubTelco business has been established for some years, it has been in CTA's ownership for less than a year. Accordingly, the full potential of ClubTelco has yet to become fully evident under its existing ownership.

Advantages and disadvantages of not approving the Proposed Transaction

In our view, the significant advantages or disadvantages of rejecting the Proposed Transaction include the reverse of the matters noted above, as well as the following:

- **Ability to pursue alternative investments:** By not approving the Proposed Transaction Eftel will be able to continue to explore alternative potential acquisitions and investments. However, we note that whilst alternative investments may be pursued by Eftel there is no guarantee that feasible opportunities may emerge; and
- **Post announcement share price:** We note that Eftel's share price increased significantly following the announcement of the Proposed Transaction. Failure to approve the Proposed Transaction may result in a fall in Eftel's share price to the level prevailing prior to the announcement of the Proposed Transaction.

Overall conclusion on advantages and disadvantages of the Proposed Transaction

In our opinion, based on a consideration of the above, the Proposed Transaction is considered reasonable from the perspective of the Non-Associated Shareholders of Eftel as:

- on balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it to the Non-Associated Shareholders; and
- on balance, the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting it to the Non-Associated Shareholders.

Conclusion on Proposed Transaction

In our opinion the Proposed Transaction is, on balance, fair and reasonable to the Non-Associated Shareholders of Eftel.

There is an overlap between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction,

and accordingly the Proposed Transaction is considered fair from the perspective of the Non-Associated Shareholders of Eftel.

Further, on balance, the advantages of approving the Proposed Transaction outweigh the disadvantages to the Non-Associated Shareholders and the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting the Proposed Transaction.

General Advice and Other

General advice

In forming our opinion, we have considered the interests of the Non-Associated Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of the individual Non-Associated Shareholders. It is neither practical nor possible to assess the implication of the Proposed Transaction on individual Non-Associated Shareholders as their individual financial circumstances are not known.

Some Non-Associated Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in our Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable to them and each individual Non-Associated Shareholder must take into account his or her own circumstances when deciding whether or not to vote in favour or against the resolutions relating to the Proposed Transaction. Non-Associated Shareholders should seek their own independent professional advice to assist them in their decision, taking into account their preferences and expectations.

As an individual Non-Associated Shareholder's decision to vote in favour of the Proposed Transaction may be influenced by his or her particular circumstances, we recommend that individual non-associated shareholders consult their financial advisors.

Other

William Buck is an Authorised Representative under an appropriate Australian Financial Services Licence. Accordingly, we are required to provide a Financial Services Guide in situations where we may be taken as providing financial product advice. A copy of William Buck's Financial Services Guide is set out in the annexure hereto.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this Report including the appendices.

Yours faithfully,

William Buck Corporate Advisory Services (NSW) Pty Limited

ABN 50 133 845 637

Authorised Representative No. 333393

AFSL 240769



Domenic Quartullo

Director



Manda Trautwein

Director

Financial Services Guide

Dated: 26 May 2011

William Buck Corporate Advisory Services (NSW) Pty Ltd ABN 50 133 845 637 ("**William Buck**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

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 general financial product advice and to ensure that we comply with our obligations as an authorised representative of a financial services licensee.

The FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide as an Authorised Representative of William Buck Financial Services (NSW) Pty Ltd (Licence No: 240769);
- 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 complaints handling procedures and how you may access them.

Financial Services we are Licensed to Provide

We are an authorised representative of William Buck Financial Services (NSW) Pty Ltd who holds an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- deposit and payment products limited to:
 - basic deposit products;
 - deposit products other than basic deposit products;
- derivatives limited to old law securities options contracts and warrants;
- debentures, stocks or bonds issued or proposed to be issued by a government;

- life products including:
 - investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds; and
 - life risk insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds;
- interests in managed investment schemes including investor directed portfolio services;
- retirement savings accounts products (within the meaning of the Retirement Savings Account Act 1997);
- securities; and
- superannuation.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as an authorised representative of a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial advice, because it has been prepared without taking 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. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may Receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither William Buck, 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.

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 authorised to provide.

Associations and Relationships

From time to time William Buck may provide professional services including financial advisory services to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal Complaints Resolution Process

As an authorised representative of a 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 Compliance Officer, William Buck, Level 29, 66 Goulburn Street, Sydney NSW 2000.

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. The Financial Ombudsman Service is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry.

Further details about the Financial Ombudsman Service are available at the website www.fos.org.au or by contacting them directly at: the Financial Ombudsman Service, GPO Box 3, Melbourne VIC 3001, or by telephone on 1300 780 808 or by facsimile on (03) 9613 6399.

Professional Indemnity Insurance

William Buck has professional indemnity insurance in place which covers any work done by us, as an authorised representative of William Buck Financial Services (NSW) Pty Ltd and by representatives/employees after they cease to work for us. The compensation arrangements we have in place comply with sec.912B of the Corporations Act.

Contact Details

You may contact us at William Buck, Level 29, 66 Goulburn Street, Sydney, NSW 2000 or by telephone on (02) 8263 4000

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1. The Proposed Transaction

1.1 Overview of Proposed Transaction

On 8 April 2011 Eftel announced that it had reached an in principle agreement to acquire all the issued securities in ClubTelco and issue additional Shares under the Placements.

In summary, under the Proposed Transaction the Company will enter into a share subscription agreement pursuant to which the Company will allot and issue 772,517,287 fully paid ordinary shares in Eftel ("**Shares**") as follows:

- 603,529,130 Shares issued at approximately 1.243 cents per share to ClubTelco as consideration for the acquisition of 100% of the issued shares of ClubTelco;
- 113,222,065 Shares to Cannes Management in its capacity as trustee for the Kestelman Family Trust No. 2 in consideration for the payment of \$1,407,000; and
- 55,766,092 Shares to MIS in its capacity as trustee for the Slepoy Family Trust No. 3 in consideration for the payment of \$693,000.

We note that the Proposed Transaction forms one resolution to be approved by shareholders of Eftel as the Acquisition and the Placements involve parties that are related and they are contingent on each other.

Shareholders should refer to the accompanying EM for full details of the Proposed Transaction.

1.2 Eftel's Issued Shares Prior to and After Approval of the Proposed Transaction

Eftel's issued securities prior to the issue of any securities under the Proposed Transaction comprised solely 249,458,707 fully paid ordinary shares.

We understand that Cannes Management currently holds 12,393 fully paid ordinary shares in Eftel.

We set out below details of Eftel's issued securities both before and after approval of the Proposed Transaction:

Table 2 – Eftel – Issued Shares before and after approval of the Proposed Transaction

Fully Paid Ordinary Shares	Prior to Approval of the Proposed Transaction		After Approval of the Proposed Transaction	
	Shares	%	Shares	%
Current Non-Associated Shareholders	249,446,314	99.995%	249,446,314	24.408%
CTA / Cannes Management / MIS:				
Current Shareholding of Cannes Management	12,393	0.005%	12,393	0.001%
Issue of Consideration Shares	-	0.000%	603,529,130	59.055%
Issue of Shares under the Cannes Placement	-	0.000%	113,222,065	11.079%
Issue of Shares under the MIS Placement	-	0.000%	55,766,092	5.457%
Total CTA / Cannes Management / MIS	12,393	0.005%	772,529,680	75.592%
Total	249,458,707	100.000%	1,021,975,994	100.000%

Source: William Buck

It may be seen from the above that, on completion of the Proposed Transaction, entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) will be entitled to between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report.

1.3 Additional Loan Funds

Whilst not forming part of the Proposed Transaction, on 13 May 2011, Eftel also entered into an agreement with its current Chief Executive Officer, Mr Scott Stavretis, pursuant to which Mr Stavretis will provide a loan to Eftel of \$500,000 ("**Stavretis Loan**"). The Stavretis Loan is, at the request of Mr Stavretis and with the approval of Eftel's shareholders, convertible into Shares in Eftel at a price of \$0.01243 per Eftel Share. Other terms of the Stavretis Loan include the following:

- interest on the Stavretis Loan is payable at 19.2% per annum paid monthly in arrears (or 23.2% per annum on any part of the Stavretis Loan which is due and payable, but unpaid);
- it is a condition precedent that Eftel raise up to an additional \$500,000 by way of loan funds;
- the repayment date of the Stavretis Loan is as follows:
 - if the requisite approval of the loan is not obtained from Eftel shareholders prior to 30 June 2011, then repayment of all monies must be made by the Termination Date specified therein (ie. the earlier of 10 August 2011 or any date on which the Stavretis Loan is validly terminated pursuant to its terms);
 - if the requisite approval of the loan is obtained from Eftel shareholders prior to 30 June 2011, and the Stavretis Loan is not converted into Eftel Shares by 30 June 2011, then repayment of all monies must be made by 10 August 2011

The implications of the Stavretis Loan are that a further 40,225,261 Eftel Shares may be issued if the Stavretis Loan is converted. In addition, the funds borrowed under the Stavretis Loan together with the additional funds to be borrowed by Eftel as part of the condition precedent will increase Eftel's available cash with which to fund its working capital and other requirements.

The following table sets out details of Eftel's issued securities both before approval of the Proposed Transaction and after the approval of the Proposed Transaction on the alternative scenarios that the Stavretis Loan is either converted or not converted:

Table 3 – Eftel – Issued Shares before and after approval of the Proposed Transaction and conversion of the Stavretis Loan

Fully Paid Ordinary Shares	Prior to Approval of the Proposed Transaction		After Approval of the Proposed Transaction but before Conversion of the Stavretis Loan		After Approval of the Proposed Transaction and Conversion of the Stavretis Loan	
	Shares	%	Shares	%	Shares	%
Current Non-Associated Shareholders	249,446,314	99.995%	249,446,314	24.408%	249,446,314	23.484%
Conversion of Stavretis Loan	-	0.000%	-	0.000%	40,225,261	3.787%
CTA / Cannes Management / MIS:						
Current Shareholding of Cannes Management	12,393	0.005%	12,393	0.001%	12,393	0.001%
Issue of Consideration Shares	-	0.000%	603,529,130	59.055%	603,529,130	56.819%
Issue of Shares under the Cannes Placement	-	0.000%	113,222,065	11.079%	113,222,065	10.659%
Issue of Shares under the MIS Placement	-	0.000%	55,766,092	5.457%	55,766,092	5.250%
Total CTA/ Cannes Management / MIS	12,393	0.005%	772,529,680	75.592%	772,529,680	72.729%
Total	249,458,707	100.000%	1,021,975,994	100.000%	1,062,201,255	100.000%

Source: William Buck

2. Scope and Limitations

2.1 Regulatory Background

2.1.1 Corporations Act

The Proposed Transaction is subject to Sections 606 and 611 of the Act.

Unless allowed by other provisions, Section 606 of the Act ("**Section 606**") does not allow a person to acquire a relevant interest in the issued voting shares of a listed company if, by entering into the transaction, their (or someone else's) voting power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point above 20% and below 90%.

As noted in section 1.2 above, if the Proposed Transaction is approved entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) would move from holding an interest of less than 20% in Eftel to holding between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report..

Section 611 of the Act provides an exemption to Section 606 if the Proposed Transaction is approved by a resolution of the shareholders at a general meeting called for that purpose.

Whilst Section 611 does not explicitly state that an expert's opinion is required in relation to such transactions, regulatory guidance issued by the Australian Securities and Investments Commission ("**ASIC**") states that it is the Directors' obligation to provide shareholders with full and proper disclosure to enable them to assess the merits of a proposed transaction for the purpose of assisting them to decide whether to approve any resolutions relating to the transaction. This obligation may be satisfied by commissioning an independent expert's report on whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders of Eftel.

2.2 Purpose and Scope

2.2.1 Purpose

William Buck has been appointed by the Directors of Eftel to prepare an independent expert's report expressing our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of Eftel.

This Report is to accompany the EM being provided to the shareholders of Eftel and has been prepared to assist the Directors in fulfilling their obligation to provide shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transaction and to assist them in their consideration of whether or not to approve the resolutions relating to the Proposed Transaction.

This Report should not be used for any other purpose and we do not accept any responsibility for use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without the written consent of William Buck, as to the form and context in which it may appear.

2.2.2 Scope

Section 611 requires shareholders to be given all relevant information known to the persons entering into a transaction, their associates or the company, which is material to the proposed transaction.

Whilst Section 611 does not explicitly state that an expert opinion is required in relation to such transactions, it is a company's directors' obligation to provide shareholders with full and proper disclosure to enable them to assess the merits of any proposed transaction, for the purpose of assisting them to decide whether to approve any resolutions relating to the transactions. This obligation may be satisfied by commissioning an independent expert's report on whether the Proposed Transaction is fair and reasonable.

The scope of our procedures undertaken have been limited to those procedures we believed are required in order to form our opinion. Our procedures, in the preparation of this Report, may have involved an analysis of financial information and accounting records. However, the procedures did not include verification work nor did they constitute:

- an audit in accordance with AUS;
- an assurance engagement in accordance with ASAE; or
- a review in accordance with ASRE.

The assessment of whether or not the Proposed Transaction is fair and reasonable will necessarily involve us determining the "fair market value" of various securities, assets and interests. For the purposes of our opinion, the term "fair market value" will be defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

By their very nature, any valuation assessments are necessarily the subject of uncertainty and volatility and the conclusions arrived at will include considerations that are dependent on the exercise of individual judgement. Accordingly, there is unlikely to be an "indisputable value", and we have expressed our opinion as to values as falling within a likely range.

We have not considered the effect of the Proposed Transaction on the particular circumstances of individual shareholders. Some individual shareholders may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable to them.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their particular circumstances and, therefore, shareholders should seek independent advice.

2.3 Basis of Evaluation

As there is no legal definition of the expression fair and reasonable in the Act, we have therefore considered guidance provided by ASIC in its RGs in assessing whether the Proposed Transaction is fair and reasonable from the perspective of the Non-Associated Shareholders. Specifically, we will have regard to the provisions of the following:

- RG 111: Content of Expert Reports;
- RG 112: Independence of Experts; and
- RG 170: Prospective Financial Information.

RG 111 treats “fair” and “reasonable” as two distinct criteria. The transaction is “fair” if the value of the consideration offered is equal to or less than the value of the securities or assets acquired and which are the subject to the transaction. The transaction will be “reasonable” if it is fair, or, despite being not fair, after considering other significant factors, there are sufficient reasons for the shareholders to accept the transaction.

In our opinion, the most appropriate basis on which to evaluate the Proposed Transaction is to assess its likely overall impact on the Non-Associated Shareholders and to form a judgement as to whether the expected benefits outweigh any disadvantages that might result from approving the transaction.

In forming our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, we have considered and compared the following:

- the fair market value of the consideration offered by Eftel with the fair market value of shares in ClubTelco to be acquired by Eftel under the Proposed Transaction and the other amounts payable by Cannes Management and MIS;
- the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is approved; and
- the advantages and disadvantages to the Non-Associated Shareholders if the Proposed Transaction is not approved.

Where applicable, we have considered whether or not an appropriate premium (for control or significant influence) is reflected in the consideration under the Proposed Transaction.

In our opinion, the Proposed Transaction is to be judged in terms of its overall effect. It is not meaningful to assess the individual elements of the Proposed Transaction separately.

2.4 Reliance on Information

This Report is based upon financial and other information provided by each of Eftel and ClubTelco. We have considered and relied upon this information. We believe the information provided to be reliable, complete and not misleading, and have no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

Where we have relied on the views and judgement of management the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation. In the context of this Report, the views not capable of direct external verification or validation related principally to matters such as the likely future actions of management and/or the likely future behaviour of competitors.

2.5 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time. Accordingly, changes in those conditions may result in any valuation opinions becoming quickly outdated and in need of revision. We reserve the right to revise any valuation, or other opinion, in the light of material information existing at the Valuation Date that subsequently becomes known to us.

2.6 Sources of Information

Appendix A to this Report sets out details of information referred to and relied upon by us during the course of preparing this Report and forming our opinion.

Eftel has agreed to indemnify William Buck, and its owner practice, their partners, directors, employees, officers and agents (as applicable) against any claim arising out of misstatements or omissions in any material supplied by the Company, its subsidiaries, directors or employees, on which we have relied.

2.7 Assumptions

In forming our opinion, the following has been assumed:

- all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts and there are no alleged or actual material breaches of the same or disputes (including, but not limited to, legal proceedings), other than as disclosed to us and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding, other than as publicly disclosed;
- that matters relating to title and ownership of assets (both tangible and intangible) are in good standing, and will remain so, and that there are no material legal proceedings, or disputes, other than as disclosed to us;
- information in relation to the Proposed Transaction provided to the Eftel shareholders or any statutory authority by the parties is complete, accurate and fairly presented in all material respects;
- if the Proposed Transaction is approved, it will be implemented in accordance with its disclosed terms; and
- the legal mechanisms to implement the Proposed Transaction are correct and effective.

3. Economic and Industry Overview

3.1 Introduction

The prospects of both Eftel and ClubTelco will be affected by future general global economic conditions and conditions in the telecommunications and Internet sectors.

3.2 Global and Australian General Economic Conditions

In preparing this Report, we have had regard to likely global and Australian economic conditions over the foreseeable future. The following observations regarding global and Australian global economic conditions are based on William Buck's review of generally available economic analysis reports published by major Australian trading banks and economic forecasting bodies at or about April 2011.

3.2.1 Global Economic Conditions

Notwithstanding the unstable financial conditions in a number of European countries, the later part of 2010 saw the recovery in the global industrial cycle beginning to take hold in the US and other parts of Europe.

Economic conditions in the US suggest that business confidence is improving and that employment growth, whilst variable, is encouraging. However, domestic consumption is still weak reflecting low wage growth and still high levels of household debt. Whether the encouraging sentiment continues to gain momentum will ultimately depend on continuing jobs growth and/or new growth in real wages. Whilst jobs growth has been evident, the growth has been modest and this is likely to be reflected in modest consumption outcomes. Whilst the current round of government economic stimulus is drawing to a close, it is still uncertain as to whether or not a tightening of monetary policy is warranted.

Growth in China continues but government policy over the coming years will be aimed at controlling growth within an annual target range which is likely to be lower than the growth achieved in recent years. The controlling of annual growth is required to accommodate the structural changes desired in the Chinese economy as it enters the next phase of growth.

The economic outlook for Japan is uncertain and subject to significant reassessment in the aftermath of its recent earthquake, tsunami and problems in controlling radiation at the disabled nuclear plant in Fukushima Prefecture. In the absence of the nuclear plant issues, expectations are that the recent earthquake and tsunami would have an immediate short-term negative economic impact, to be followed by a medium-term stimulatory effect with the commencement of the rebuilding of infrastructure. However, the difficulties being experienced in bringing the Fukushima nuclear plant under control and the difficulty in assessing the full extent of the radiation contamination may have serious implications on Japan's economic outlook if not addressed quickly.

Economic conditions in Europe remain uncertain, with Germany still continuing to "hold up" otherwise poor economic conditions in a number of other European countries. But an emphasis on maintaining control of inflationary pressures will re-focus the market attention on possible rate increases by the European Central Bank. The continued risk of renewed sovereign debt concerns should act as a counter to any significant rate increases.

A summary of economic growth expectations globally and in Australia is set out in the following table.

Table 4 – Australian & Global Economic Outlook - GDP Forecast Calendar Year - % Change

Region	2007	2008	2009	2010	2011	2012
Total Global	5.4%	2.9%	-0.7%	4.9%	4.3%	4.2%
China	14.2%	9.6%	9.1%	10.3%	9.2%	8.1%
United States	2.0%	0.0%	-2.6%	2.9%	2.7%	2.7%
Euro-zone	2.8%	0.3%	-4.0%	1.7%	1.6%	1.6%
Australia	4.7%	2.6%	1.3%	2.7%	2.3%	3.9%

Source: William Buck: Based on consensus economic forecasts published by various Australian trading banks April 2011

3.2.2 Australian Economic Conditions

Whilst the overall Australian economy has performed strongly over recent years, 2010 clearly exhibited the “two-speed” nature of the domestic economy, with growth being predominantly driven by strong demand for commodities from Australia’s trading partners, most notably China.

The medium-term outlook remains positive, with continuing strong demand from Australia’s major trading partners having a significant positive influence on Australia’s terms of trade.

Business investment plans confirm a further strengthening of the mining boom and whilst the short-term negative impact of the January 2011 floods may be reflected in economic results for the March 2011 quarter, the reconstruction effort will add a second growth factor to the expected continuing strong global demand for commodities in further boosting subsequent growth.

Australian commodity exports finished 2010 in a strong position as recovery in the global industrial cycle began to take hold and this was reflected in significant increases in the prices of a wide range of base metals and coal. Agricultural prices also increased significantly during 2010 as extreme global weather conditions boosted demand for Australian production.

3.3 Industry Overview

Eftel and ClubTelco operate within the broader telecommunications sector.

The following industry analysis briefly outlines the current state of the industry relating to Internet services providers and telecommunications resellers in Australia.

3.3.1 Telecommunications Resellers in Australia

Telecommunications resellers operate by purchasing capacity from network providers and reselling this capacity through their distribution channels. The services which are sold by participants in this industry include fixed, mobile and data telecommunication services.

Recent Industry Performance

According to IBISWorld, the telecommunications resellers industry has experienced a dramatic decline during the past few years. This decline has been due to major players exiting the industry and high levels of price based competition which has fragmented revenue and eroded margins.

Network operators have been seeking to increase their client bases and as a result have been reducing the network capacity available to resellers. As network capacity is the key input to the reseller industry, its increasing scarcity has resulted in resellers being unable to purchase the capacity that they require, at a price which enables them to make adequate margins.

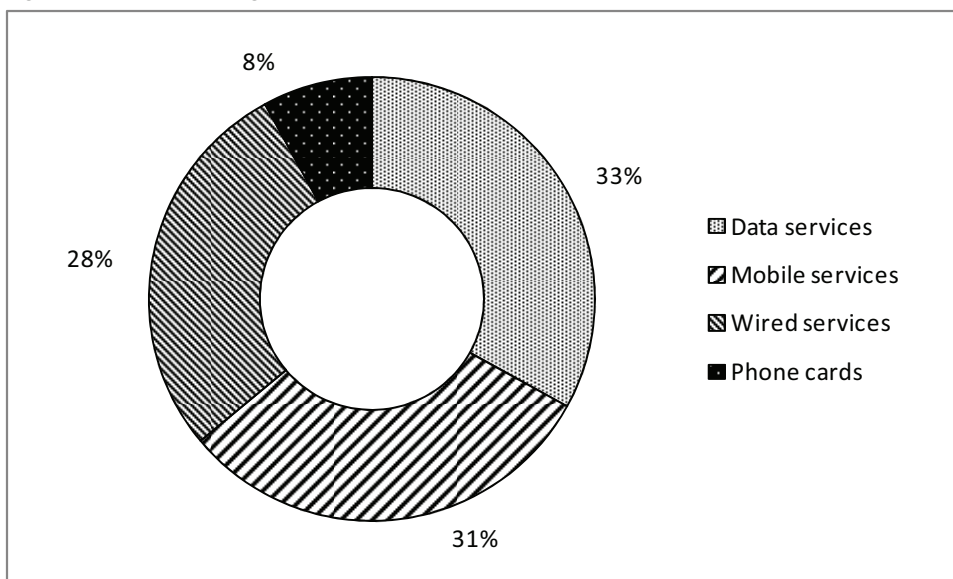
The industry decline has resulted in stronger resellers acquiring other resellers in order to build scale and competitiveness.

Product Segmentation

The products offered by this industry include data services, mobile services, wired services and phone cards. The demand for each of these products follows that of the broader telecommunications industry. In recent years the demand for fixed line revenue has declined as has the demand for 2G mobile services, both of which represent significant portions of the products offered by resellers.

The current product segmentation in this industry is illustrated below.

Figure 3 – Product Segmentation



Source: IBISWorld Industry Report, February 2011

Industry Competition

The capital cost required to enter the reseller industry is low, and this is one factor that has resulted in low market concentration. Barriers to entry are increasing, as new entrants are required to have a large enough customer base in order to acquire network capacity at a price which enables them to operate profitably.

Participants compete based primarily on price and quality of customer service.

The concentration within the telecommunications reseller industry is low, with the top five industry participants representing an estimated 34.1% of total market share.

Industry Outlook

IBISWorld expects that the industry will continue to decline until 4G mobile technology is rolled out. The roll out of this technology is expected to reduce the strain on network operators relating to availability of network capacity and create niche markets for resellers.

The decline in fixed line telephone subscribers is expected to continue, as consumers substitute fixed services with Internet and mobile services.

The increasing demand for data by both businesses and consumers is expected to continue, creating opportunities for resellers that are able to offer customised solutions in this area.

The roll out of the National Broadband Network by the Australian Government is expected to significantly reshape the telecommunications industry in Australia and is expected to benefit the resellers industry. At present, the implications of the National Broadband Network on the industry are uncertain as the role of the National Broadband Network is yet to be determined.

3.3.2 Internet Service Providers in Australia

Companies operating in this industry provide a range of services. The primary service is the provision of Internet access to households, businesses and government institutions via fixed lines. Other services which are provided include web page hosting, domain services and e-commerce services.

According to IBISWorld, the Internet service providers industry in Australia has experienced the highest growth rate within the telecommunications sector during the five years ending 30 June 2011. This growth rate is attributed to the continuing integration of the Internet into the operations of businesses and the daily lives of consumers. This integration has resulted in subscribers upgrading services to broadband connections which provide higher speeds and download capacity.

Overall industry profitability has been improving as revenues increase as cost structures are largely "fixed" in nature.

The introduction of mobile broadband has resulted in fixed line subscriber numbers declining in recent years after peaking in 2007.

The roll out of the National Broadband Network will provide opportunity for industry expansion. The connection speeds which will be delivered by the National Broadband Network will make a fixed line critical for business and attractive to consumers. This is anticipated to result in a growth in the number of fixed line subscribers.

4. Profile of Eftel

4.1 Background

Eftel is an Internet and telecommunication services provider whose shares are listed and quoted for trading on the Australian Securities Exchange (“**ASX**”).

Directly and indirectly Eftel is a broadband network operator providing access to Australia's sixth largest broadband footprint.

The business operations of Eftel have a long history.

In May 1999 the ASX listed company Goldminco NL (as Eftel was then called) acquired the telecommunications and data transfer business operations of Radio Technologies, together with an associated Victorian based Internet service provider, Datafast, and changed its name to Datafast Telecommunications Limited (“**Datafast**”). At that time Radio Technologies had been in operation for 10 years and had developed a significant telecommunication network and infrastructure in Victoria. The Datafast business was the largest Internet service provider in Western Victoria.

In 2000 Eftel Pty Limited was established in Western Australia for the purpose of amalgamating a number of smaller Internet service providers (“**ISP**”) into a single business.

Following further acquisition, in 2002, Datafast merged with Eftel Pty Limited effectively doubling the size of the company and extending broadband operations into four states.

Datafast continued to make a number of acquisitions during 2003 to 2005 and changed its name to Eftel in December 2005.

Other significant events in Eftel’s development have included the following:

- March 2007: Eftel was appointed as one of four approved suppliers of Internet services by the Victorian Government;
- November 2007: Eftel announced the rollout of the BroadbandNext MSAN network;
- September 2008: Eftel acquired the business of Conceptual Networks, a Perth based ISP with a nationally spread customer base, and the Malaysian based company CGOC (Malaysia) Bhd Sdn, a provider of customer support services; and
- August 2009: Eftel completed a rights issue with the issue of 82.7 million shares raising over \$1,725,000.

Today, Eftel has offices in Perth and Melbourne and operates a business processing centre located at Cyberjaya, in part of Kuala Lumpur’s “multimedia super corridor”.

4.2 Business Divisions

Eftel has several business divisions which utilise the company's network. These divisions are Eftel Wholesale, Eftel Retail and Eftel Corporate.

Eftel Corporate offers tailored solutions to business and government clients throughout Australia. As noted in 4.1 above, Eftel is a preferred supplier to the Victorian Government.

Eftel Retail is a multiple award winning Top 10 Internet Service Provider offering a full suite of consumer Internet products. It also operates the aaNet brand, which focuses on broadband services in the online discount market.

Eftel Wholesale services a quarter of Australia's ISPs with a range of services including IP, co-location, dialup ports and DSL Broadband.

In 2009 Eftel Prepaid was launched as Australia's first prepaid fixed-line broadband service.

4.3 Board and Management

Eftel's key directors and management personnel have significant industry knowledge and include the following:

Scott Stavretis - Chief Executive Officer

Mr Stavretis comes to the company from Dodo Australia, where he was responsible for the executive management and operations of the entire group. He has over 15 years of Internet and telecommunications experience.

Since its inception in 2001, Mr Stavretis has played a pivotal role in Dodo's growth into Australia's largest private telecommunications group. He was also responsible for forming related entities including Dodo Power & Gas and ClubTelco.

Pursuant to a management deed between Eftel and ClubTelco (the "**Management Deed**") Eftel has agreed to provide management services to ClubTelco. Eftel has made the services of Mr Stavretis available to ClubTelco and, in addition to Mr Stavretis being the Chief Executive Officer of Eftel, he is also the ClubTelco Relationship Manager.

It is anticipated that Mr Stavretis will join the Board of Eftel after completion of the Proposed Transaction.

Simon Ehrenfeld MBA MMR - Executive Chairman

Mr Ehrenfeld served as the CEO of Eftel (formerly Datafast) from 2002 to 2010, during which time the company grew to become a Top 10 ISP. He holds a Master of Business Administration degree from the University of Western Australia, as well as a Masters in Management Research.

He has served as Managing Director of various ISPs in the Eftel group for 13 years and as Executive Chairman since March 2009.

Ilario Faenza – Non Executive Director

Mr Faenza has over 20 years experience in the information technology and telecommunications industry. In addition to executive roles in the sector, he has worked on several mergers and acquisitions of companies focused on this market.

Mr Faenza is a founder and Executive Director of Aggregato Pty Ltd, a Mobile Virtual Network Aggregator and Enabler. He is also a Non-Executive Director of Tel.Pacific Limited, Australia's largest publicly listed Calling Card & International Mobile calling company.

Paul Stevenage BCom CPA - Non Executive Director

Mr Stevenage is the CFO of the Dick Smith Group, a division of Woolworths Ltd. He has previously served in senior roles at other major Australian companies, including Boral Ltd, Mayne Nickless and BGC.

Mr Stevenage is a former Lions Youth of the Year, Commonwealth of Nations Youth of the Year, and Murdoch University Guild President. He holds a Bachelor of Commerce degree, and has served as a director for seven years.

John Raftis BBus CPA ACIS - Chief Financial Officer/Company Secretary

Mr Raftis holds a Bachelor of Business degree, and completed his CPA with one of the highest rankings in Australia. He is also a Chartered Secretary and holds a Dux Award in Corporate Governance.

Mr Raftis has over 20 years of industry-based accounting experience. John is the Chief Financial Officer and has been with ISPs in the group for 11 years. John also serves as secretary to the audit committee.

Paul Rolfe – Technical Operations Manager

Mr Rolfe has held senior roles with ISPs within the Eftel group for 15 years. He currently oversees all network operations and information systems development for the group.

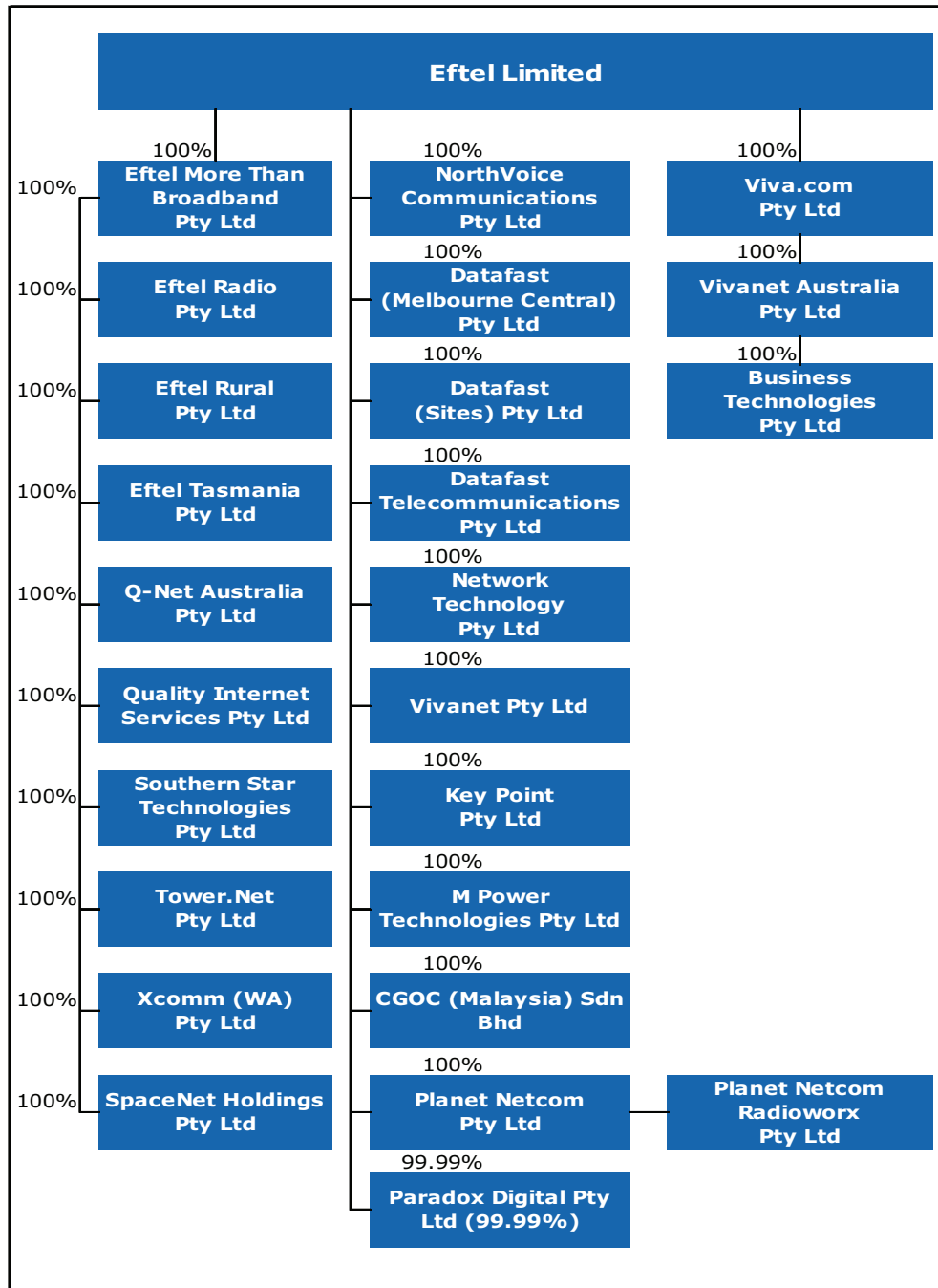
Rick Swancott – Retail Manager

Mr Swancott has held senior roles with ISPs within the Eftel group for 10 years. He currently oversees all support, marketing and retail sales functions.

4.4 Corporate Structure

The existing corporate structure of Eftel is as follows:

Figure 4 – Corporate Structure



Source: Eftel

4.5 Capital Structure

Eftel's capital structure as at the date of this Report comprises 249,458,707 fully paid ordinary shares. We understand that, other than its fully paid ordinary shares no other securities in Eftel are on issue.

Details of the largest shareholder groups (but not necessarily associates) in Eftel and Eftel's total shareholders as at 21 April 2011 are as follows:

Table 5 – Eftel Shareholders

Shareholder Name	Notes	No of Ordinary Shares Held	No of Ordinary Shares Held by Grouping	Percentage of Ordinary Shares by Grouping
Paradox Investments Pty Ltd	1	26,162,786		
Northlink Holdings Pty Ltd ATF Paradox Investments Superannuation Fund	1	5,161,892		
Mr Simon Ehrenfeld		16,072,710		
Mr Jeremy Cousins		5,854,250		
Aztec P/L ATF Cousins Family Trust	2	1,575,000	54,826,638	21.98%
Quoin (Int) Limited			43,272,878	17.35%
Netnode Pty Limited	3	9,400,000		
Conceptual Internet Australia Pty Ltd	3	3,925,000	13,325,000	5.34%
Jasforce Pty Ltd			12,000,000	4.81%
Mr John Robert Raftis		3,925,920		
Mr John Robert Raftis & Mrs Tandra Sinclair Raftis		2,377,700		
Mr John Robert Raftis & Mrs Tandra Sinclair Raftis ATF Metis Superannuation Fund		741,700	7,045,320	2.82%
Mrs Norma Rosina Ehrenfeld	4	4,678,410		
Mr Kurt Ehrenfeld	4	2,106,250	6,784,660	2.72%
Mr Luke Mackinnon			6,770,666	2.71%
Mr Jurgen Herbert Steinert		43,000		
Jenesta Pty Ltd ATF Steinert Family Trust	5	6,081,590	6,124,590	2.46%
Mr Adrian Gregory Pluim		2,600,000		
Mr Adrian Gregory Pluim & Mrs Hilary Maureen Pluim ATF Pluim Superannuation Fund		2,081,238	4,681,238	1.88%
Mr John Franklyn Lane			4,587,601	1.84%
Mr Paul Alexander Rolfe			4,069,066	1.63%
Savcrete Pty Ltd ATF Searle Superannuation Fund			2,955,866	1.18%
Tendword Pty Ltd ATF David Fawcett Superannuation Plan			2,750,000	1.10%
Mr Morris Lindsay Hulse			2,500,000	1.00%
Thooruna Pty Ltd		107,746		
Thooruna Pty Ltd ATF Thooruna Superannuation Fund		2,202,051	2,309,797	0.93%
LFB Investments Pty Ltd ATF Trans Superannuation Fund			2,114,301	0.85%
Mr Jason Mikronis			1,899,999	0.76%
Mr Adam Dane Rosenfeld			1,876,753	0.75%
Mountainview Retreat Retirement Village Pty Ltd			1,779,477	0.71%
Mr Philip Stephen Wilton			1,307,890	0.52%
Total Top 20 Shareholder Groupings			182,981,740	73.35%
Other			66,476,967	26.65%
Total Ordinary Shares on Issue			249,458,707	100.00%

Source: Eftel

Notes to Table 5:

- Note 1: Mr Simon Ehrenfeld and Mr Jeremy Cousins are directors of Paradox Investments Pty Ltd and Northlink Holdings Pty Ltd;
- Note 2: Mr Jeremy Cousins is a director of Aztec Pty Ltd;
- Note 3: Conceptual Internet Australia Pty Ltd and Netnode Pty Ltd are associated parties;
- Note 4: Mrs Norma Ehrenfeld and Mr Kurt Ehrenfeld are associated parties; and
- Note 5: Mr Jurgen Steinert is a director of Jenesta Pty Ltd.

We note that the largest shareholder groups in Eftel currently hold approximately 73.35% of the issued fully paid ordinary shares in Eftel as at 21 April 2011 as set out in Table 5). We understand that there has been no material change in the above details to the date of this Report.

The distribution of Eftel's fully paid ordinary shares as at 21 April 2011 is as follows:

Table 6 – Distribution of Fully Paid Ordinary Shares

Distribution	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	279	107,294
1,001 - 5,000	204	531,851
5,001 - 10,000	224	1,749,127
10,001 - 100,000	488	16,666,746
100,001 - Over	172	230,403,689
Total		

Source: Eftel

4.6 Financial Position

Set out below is a summary of Eftel's financial position based on its audited accounts for the year ended 30 June 2009 and 2010 and reviewed accounts for the half year ended 31 December 2010:

Table 7 – Eftel - Financial Position

A\$000	As at 30 June		As at 31-Dec-10
	2009	2010	
Current assets			
Cash and cash equivalents	2,004	1,210	1,050
Trade and other receivables	3,651	3,044	2,582
Other	869	928	1,054
Assets held for resale	-	-	4,882
Total current assets	6,524	5,182	9,568
Non-current assets			
Other financial assets	1	1	1
Property, plant and equipment	7,152	6,019	644
Deferred tax assets	3,172	3,429	3,733
Goodwill	10,347	10,347	10,346
Other intangible assets	1,416	880	941
Total non-current assets	22,088	20,676	15,665
Total assets	28,612	25,858	25,233
Current liabilities			
Trade and other payables	8,384	6,456	8,079
Borrowings	2,572	3,575	4,077
Current tax payable	165	-	-
Provisions	355	553	448
Deferred revenue	2,076	1,689	1,673
Total current liabilities	13,552	12,273	14,277
Non-current liabilities			
Borrowings	4,060	2,511	1,200
Provisions	283	28	30
Total non-current liabilities	4,343	2,539	1,230
Total liabilities	17,895	14,812	15,507
Net assets	10,717	11,046	9,726
Equity			
Issued capital	38,262	39,920	39,920
Reserves	57	131	88
Accumulated losses	(27,602)	(29,005)	(30,282)
Total equity	10,717	11,046	9,726

Source: Eftel Annual Report 30 June 2009 and 30 June 2010 and Eftel Interim Financial Report for the half year ended 31 December 2010

We note the following regarding Eftel's financial position as at 31 December 2010:

- **Assets held for sale:** During the period ended 31 December 2010 Eftel decided to commence a process aimed at disposing of its Broadband Next MSAN network equipment. Accordingly, the value of the equipment (less any associated liabilities) was reclassified as "Assets held for sale". The amount as at 31 December 2010 represents the lower of the previous carrying value of the assets and their estimated fair value less costs to sell.

We understand that a non-binding indicative offer for its wholesale and network assets was received by Eftel in September 2010 but did not proceed.

- **Deferred tax assets:** Principally represent the potential benefit arising from past income tax losses. The recognition of a deferred tax asset with regard to past income tax losses has been undertaken to the extent that it is believed that it is probable that sufficient taxable amounts will be available against which the past tax losses can be utilised.
- **Goodwill:** Relates to the accumulated goodwill arising from past acquisition made by Eftel.
- **Other intangible assets:** Comprise the written down value of software, patents/trademarks and principally customer databases arising from Eftel's past acquisitions.
- **Borrowings:** Represent the following:

Table 8 – Eftel - Borrowings

	\$000
Current borrowings:	
Secured - Obligations under finance leases/hire purchase contracts	23
Secured - Loans from related parties	346
	369
Secured over assets held for resale:	
Obligations under finance leases/hire purchase contracts	102
Vendor financing facilities	1,222
Loan facility	2,250
	3,574
Unsecured - Other loans	134
Total current borrowings	4,077
Non-current borrowings	
Secured - Obligations under finance leases/hire purchase contracts	30
Secured - Other loans	2
Secured - Loans from related parties	916
	948
Unsecured - Other loans	252
Total non-current borrowings	1,200

Source: Eftel Interim Financial Report for the half year ended 31 December 2010

- **Deferred revenue:** Represents the value of services invoiced in advance and as such, whilst being non-refundable, is a non-cash liability.

We understand that Eftel's financial position as at 31 March 2011 was not materially different from its position as at 31 December 2010.

We note that the financial reports of Eftel for the year ended 30 June 2010 and the six-months ended 31 December 2010 have been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business. However, the Independent Auditor's Report on Eftel's financial statements as at 30 June 2010 and the Independent Auditor's Review Report as at 31 December 2010 were the subject of comments as to material uncertainty with regard to the ability of the Company to continue as a "going concern". The material uncertainty arises as a result of the Company having incurred losses during the respective trading periods to which the financial statements relate and the fact that the Company's consolidated current liabilities exceeded its current assets at the respective balance dates.

The Directors of Eftel noted in the notes to the financial statements for the year ended 30 June 2010 that they believed that preparation of the financial reports on the basis of going concern was appropriate for the following reasons:

- the consolidated entity has achieved positive EBITDA performance for the second half of the year ended 30 June 2010 and expects this to continue as a result of cost saving initiatives implemented during the year;
- the consolidated entity expects performance to improve further as a result of renegotiations with suppliers;
- subsequent to year end, Eftel had successfully obtained new pricing for broadband ports and bandwidth services and reduced its cost of premises which together were expected to deliver significant cost savings;
- Eftel expected to be able to service its current vendor debt through ongoing cash receipts from its normal operating activities.

We note that, notwithstanding the above, the assets of Eftel (including its goodwill and other intangible assets) were not considered to be impaired. In addition, we note that a deferred tax asset relating to the potential benefit arising from past income tax losses was also recognised.

4.7 Contingent Liabilities

We have been advised by Eftel that there exists a number of matters which may result in potential claims against the Company, or claims by the Company against other parties, which have arisen since 31 December 2010.

Based on legal advice received to date, Eftel does not believe that any of the claims made are sustainable or that the net amount of any claims may be material. In addition, Eftel believe that potential counter-claims may also exist.

4.8 Financial Performance

Details of Eftel's historical results for the years ended 30 June 2005 to 2010, together with its results for the half year ended 31 December 2010 are set out below:

Table 9 – Financial Performance

A\$000	Year ended 30 June						Half-Year ended 31-Dec-10
	2005	2006	2007	2008	2009	2010	
Service revenue	25,972	26,468	34,142	35,946	37,467	35,813	15,212
Other revenue	238	491	289	481	708	442	185
	26,210	26,959	34,431	36,427	38,175	36,255	15,397
Communication expenses	(12,222)	(11,092)	(21,489)	(24,106)	(27,603)	(26,634)	(12,186)
Employee benefit expenses	(7,376)	(7,919)	(7,788)	(6,883)	(6,399)	(5,365)	(2,407)
Occupancy expenses	(1,020)	(1,334)	(1,027)	(780)	(1,145)	(1,065)	(700)
Other expenses	(2,431)	(2,658)	(2,536)	(2,034)	(2,854)	(2,369)	(434)
	(23,049)	(23,003)	(32,840)	(33,803)	(38,001)	(35,433)	(15,727)
EBITDA	3,161	3,956	1,591	2,624	174	822	(330)
Depreciation and amortisation expenses	(1,851)	(1,554)	(2,239)	(1,785)	(2,504)	(2,183)	(966)
Impairment of goodwill		-	-	-	(3,166)	-	-
EBIT	1,310	2,402	(648)	839	(5,496)	(1,361)	(1,296)
Finance expenses	(65)	(182)	(148)	(182)	(347)	(580)	(284)
Profit/(loss) before income tax expense	1,245	2,220	(796)	657	(5,843)	(1,941)	(1,580)
Income tax benefit/(expense)	(446)	(626)	50	(387)	98	422	303
Exchange differences on translating foreign operations					(23)	154	(43)
Total comprehensive income.(loss) attributable to the members of Eftel	799	1,594	(746)	270	(5,768)	(1,365)	(1,320)
Communication expenses / Total revenue	47.1%	41.9%	62.9%	67.1%	73.7%	74.4%	80.1%
Employee benefit expenses / Total revenue	28.4%	29.9%	22.8%	19.1%	17.1%	15.0%	15.8%
Occupancy expenses / Total revenue	3.9%	5.0%	3.0%	2.2%	3.1%	3.0%	4.6%
Other expenses / Total revenue	9.4%	10.0%	7.4%	5.7%	7.6%	6.6%	2.9%
EBITDA %	12.1%	14.7%	4.6%	7.2%	0.5%	2.3%	-2.1%
EBIT %	5.0%	8.9%	-1.9%	2.3%	-14.4%	-3.8%	-8.4%

Source: Eftel Annual Report 30 June 2005, 2006, 2007, 2008, 2009 and 2010, Eftel Interim Financial Report for the half year ended 31 December 2010

4.9 Business Strategy

Over the past year Eftel has been undertaking a significant transition involving strategic, financial and operational changes. As announced in its half year report announcement on 28 February 2011, Eftel's change of strategy encompasses the following features:

- simplification and restructure the business for lower cost and better performance;
- a movement towards full partnership with suppliers rather than infrastructure ownership;
- the launching of new products to aid organic growth; and
- a resumption of the company's tradition of growth by acquisition.

As noted in its half year report announcement, the Company has substantially reduced costs at both the costs of goods and operating level. The benefits of the cost reductions implemented are expected to become evident in the results of Eftel in the half year ending 30 June 2011.

4.10 Share Price Trading Performance

As noted in section 4.1 above, Eftel's shares are listed and quoted for trading on the ASX.

We have reviewed the historical market trading in Eftel's shares over the 12 months ended 7 April 2011, being the day prior to Eftel's announcement of the Proposed Transaction ("**Historical Trading Period**"), with regard to the following factors:

- the daily high, low and closing share prices;
- the daily volume; and
- the volume weighted average share price ("**VWAP**").

In addition to our review of the historical share price and VWAP history of Eftel's shares, we have also reviewed the liquidity of trading in Eftel's shares for the twelve months to 7 April 2011 in order to assess whether the level of liquidity is sufficient to support a fair assessment of the market value of Eftel's shares based on its quoted market price.

Our analysis of Eftel's share trading is set out in the following table.

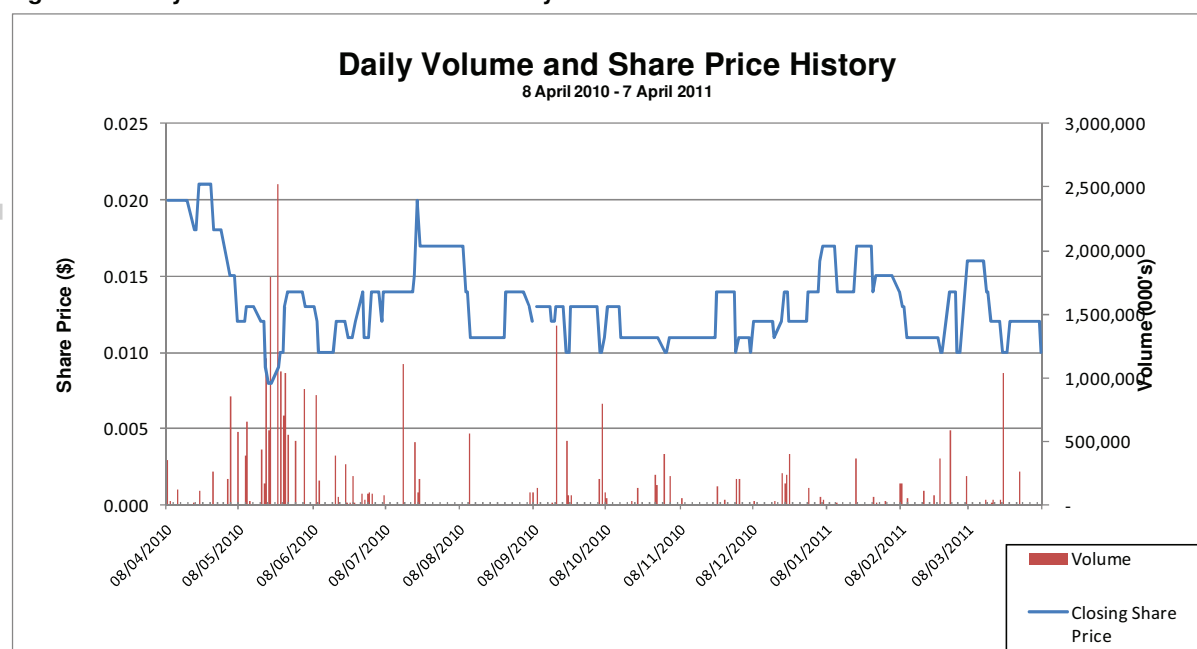
Table 10 –Eftel Share Trading

Month Ended	Volume	Average Number of Shares on Issue	Turnover %	Trading Days in Period	Days Traded	% of Days Traded	Value of Trades at Closing Price (\$)	VWAP based on Value of Trades at Closing Price (\$)
07 May 2010	2,529,645	249,458,707	1.01%	21	12	57%	40,465	0.0160
07 June 2010	12,490,296	249,458,707	5.01%	21	15	71%	130,588	0.0105
07 July 2010	2,620,622	249,458,707	1.05%	21	16	76%	31,090	0.0119
07 August 2010	1,903,950	249,458,707	0.76%	22	4	18%	28,321	0.0149
07 September 2010	767,891	249,458,707	0.31%	22	5	23%	8,753	0.0114
07 October 2010	3,324,028	249,458,707	1.33%	22	9	41%	38,240	0.0115
07 November 2010	1,245,319	249,458,707	0.50%	21	9	43%	13,399	0.0108
07 December 2010	645,640	249,458,707	0.26%	22	6	27%	7,457	0.0116
07 January 2011	1,351,532	249,458,707	0.54%	20	9	45%	17,688	0.0131
07 February 2011	668,968	249,458,707	0.27%	20	6	30%	10,514	0.0157
07 March 2011	1,592,690	249,458,707	0.64%	20	8	40%	20,358	0.0128
07 April 2011	1,446,719	249,458,707	0.58%	23	8	35%	15,351	0.0106
12 months to 7 April 2011	30,587,300	249,458,707	12.26%	255	107	42%	362,222	0.0118
6 months to 7 April 2011	6,950,868	249,458,707	2.79%	126	46	37%	84,765	0.0122
3 months to 7 April 2011	3,708,377	249,458,707	1.49%	63	22	35%	46,222	0.0125
1 month to 7 April 2011	1,446,719	249,458,707	0.58%	23	8	35%	15,351	0.0106

Source: Thomson One, William Buck's Analysis

The figure below sets out the daily share price and trading volume of Eftel's shares for the 12 months to 7 April 2011.

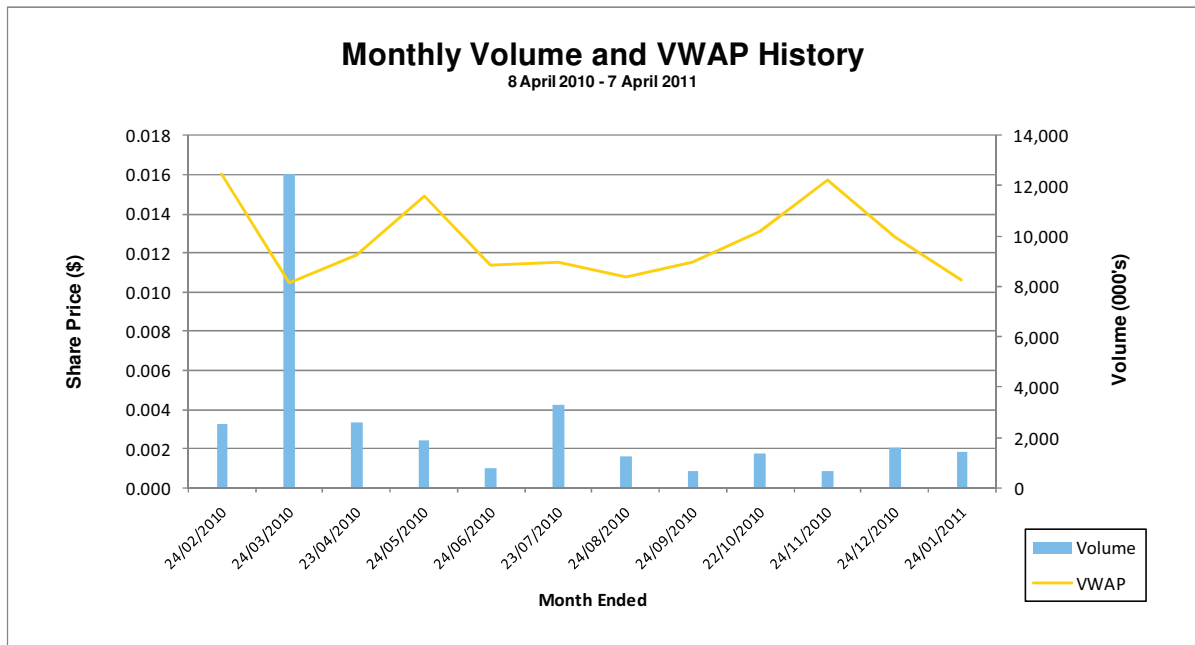
Figure 5 – Daily Volume and Share Price History



Source: Thomson One, William Buck's Analysis

The figure below sets out the monthly VWAP and total monthly trading volume of Eftel's shares for the 12 months ended 7 April 2011.

Figure 6 – Monthly Volume and VWAP History



Source: Thomson One, William Buck's Analysis

We note the following with respect to trading in Eftel's shares over the Historical Trading Period:

- Eftel's shares traded on 35% to 42% of the total number of available trading days during the Historical Trading Period;
- the total number of shares traded during the Historical Trading Period comprised only approximately 12.3% of Eftel's average shares on issue. In our opinion, this level of trading represents a relatively illiquid stock;
- as noted previously, Eftel's largest shareholder groups (as set out in Table 5) hold approximately 73.35% of its issued shares;
- Eftel's share price traded in the range between a closing low of \$0.008 per share on 20/21 February 2010 and a closing high of \$0.021 per share on 24 April 2010; and
- over a significant majority of the Historical Trading Period, Eftel's share price traded in the relatively narrow range of \$0.01 to \$0.015, as illustrated in the monthly VWAP details noted in Table 10 above.

Factors which may have had an impact on the trading activity of Eftel shares during the 12 months ended 7 April 2011 include the following.

Table 11 –Announcements

Date	Announcement
1 March 2010	Half Yearly Report and Accounts
24 May 2010	Earnings Guidance and Update
30 August 2010	Preliminary Final Report
30 September 2010	Annual Report to Shareholders
29 October 2010	Notice of Annual General Meeting/Proxy Form
18 November 2010	Becoming a Substantial Holder from QIL
26 November 2010	Acquisition of Rabbit Internet
30 November 2010	Chairman`s / CEO`s Address to Shareholders
4 January 2011	Restructure/Refinancing of Business
25 February 2011	Acquisition of Colour City Internet
1 March 2011	Half Yearly Report and Accounts

Source: ASX and William Buck

5. Profile of ClubTelco

5.1 Background

The ClubTelco business was originally established by GoTalk Limited, an Australian owned, unlisted public company in 2002.

In June 2010, CTA and ClubTelco were incorporated and the ClubTelco business was acquired from GoTalk Limited.

ClubTelco offers high end telecommunications products to Australian consumers with call centres located in both Australia and the Philippines.

The majority of services provided by ClubTelco are ADSL, fixed line phone and VOIP. In addition, ClubTelco also provides mobile phone, mobile wireless broadband and dial-up Internet services. In total, approximately 60,000 services are provided to customers throughout Australia.

ClubTelco currently employs approximately 30 employees located at its head office in Melbourne and office on the Gold Coast in Queensland. Additional employees are located in ClubTelco's office in Manila, Philippines.

5.2 Supplier Arrangements

ClubTelco purchases most of its wholesale telecommunications services from the Dodo Australia Pty Limited and its related companies ("**Dodo Group**") which is a group associated with the ultimate beneficial owners of CTA, namely Mr Larry Kestelman and Mr Michael Slepoy.

These services are provided as part of a commercial arrangement by Dodo Group at commercial market rates.

5.3 Board and Management

ClubTelco's key directors and management personnel have significant industry knowledge and include the following:

Mr Larry Kestelman - Managing Director

Mr Kestelman is a qualified accountant and has over 10 years experience in the telecommunication sector. Mr Kestelman is the Managing Director and CEO of the Dodo Group.

Mr Scott Stavretis - Relationship Manager

Mr Stavretis served as Group Executive Manager of the Dodo Group (including ClubTelco) before accepting appointment in April 2011 as the Chief Executive Officer of Eftel. Under the Management Deed referred to in section 4.3 above, Mr Stavretis oversees the daily operations of the ClubTelco business. It is anticipated that Mr Stavretis will become Chief Executive Officer of the combined Eftel/ClubTelco group upon successful completion of the Proposed Transaction.

Ms Pauline Sabin - Marketing Manager

Ms Sabin has been with ClubTelco since August 2010 and was originally with the GoTalk business. She has over 20 years experience in telecommunications and marketing roles throughout this period. Ms Sabin holds qualifications in marketing and holds a Masters in Business Administration.

Mr Vishal Bhalla - Customer Operations Manager

Mr Bhalla has been with ClubTelco since July 2010. He has over 11 years experience in the call centre industry of the telecommunications sector. Mr Bhalla has extensive knowledge of customer operations within Australia as well as managing large in-house and outsourced overseas operations. Mr Bhalla holds a Masters in IT and a Masters in Business Administration.

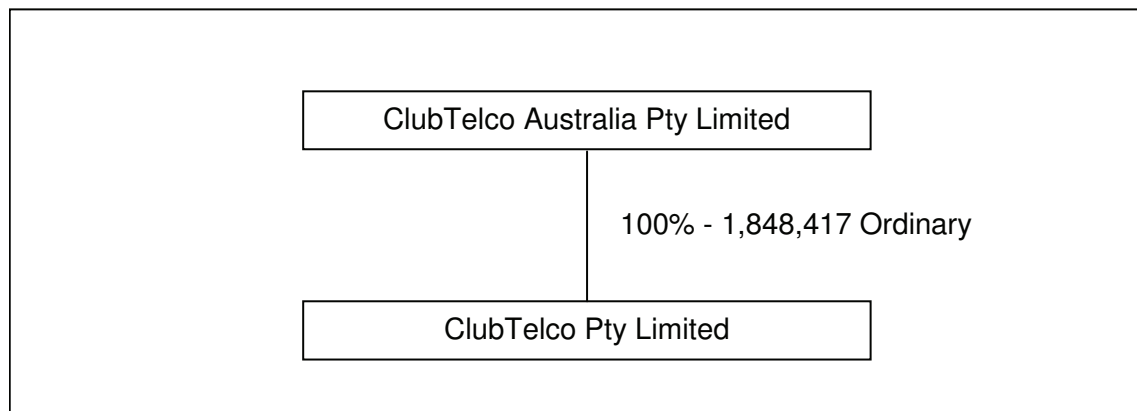
Mr Luke Golledge - Software Development Manager

Mr Golledge has been with ClubTelco since August 2010 and was originally with the GoTalk business almost since inception. He has over 12 years in the IT industry and nine years experience in the telecommunications industry running the development team within the business. Mr Golledge holds qualifications in commerce and economics as well as IT.

5.4 Corporate and Capital Structure

The corporate and shareholding structure of ClubTelco is as follows:

Figure 7 – Corporate Structure



Source: ClubTelco

As noted above, ClubTelco is effectively 100% owned by CTA, the beneficial owners of which are entities associated with Mr Larry Kestelman and Mr Michael Slepoy.

5.5 Financial Performance

As noted in Section 5.1 above, the ClubTelco business was acquired by CTA in June 2010. Accordingly, meaningful details of its financial performance under the current ownership structure are only available since 1 July 2010.

Set out in the table below is the unaudited statement of financial performance of ClubTelco for the nine months ended 31 March 2011 and annualised statement of financial performance for the year ending 30 June 2011:

Table 12 – ClubTelco - Statement of Financial Performance

	Nine-months ended 31 March 2011 \$000	Annualised FY 2011 \$000
Revenue	21,047	28,063
EBITDA	1,214	1,618
Depreciation and amortisation	25	33
EBIT	1,189	1,585
Interest and finance charges	-	-
Profit before income tax	1,189	1,585

Source: ClubTelco, William Buck annualisation based on months in period.

We note the following regarding ClubTelco's statement of financial performance for the nine months ended 31 March 2011 set out above:

- monthly gross revenues have been fairly stable in the range of \$2.1 to \$2.4 million per month. We understand that this reflects the nature of ClubTelco's business and is consistent with the revenues of the business prior to its acquisition by ClubTelco;
- direct costs associated with the delivery of services are based on arm's length market rates; and
- indirect costs incurred in determining EDITDA do not include head office costs for such functions as legal and financial reporting which are incurred on a zero incremental cost basis by Dodo Group and are not on-charged to ClubTelco.

5.6 Financial Position

Set out in the table below is the unaudited statement of financial position of ClubTelco as at 31 March 2011:

Table 13 – ClubTelco - Statement of Financial Position

	\$000
Current assets	
Cash and cash equivalents	1,036
Trade and other receivables and prepayments	3,213
Accrued income	471
Stock on hand	47
Total current assets	4,767
Non-current assets	
Property, plant and equipment	168
Goodwill - Customer list	1,606
Total non-current assets	1,774
Total assets	6,541
Current liabilities	
Trade and other payables	911
GST payable	127
Payroll liabilities	96
Unearned income	796
Other payables and accrued expenses	1,532
Total current liabilities	3,462
Total liabilities	3,462
Net assets	3,079
Equity	
Issued capital	1,848
Retained earnings	1,231
Total equity	3,079

Source: ClubTelco

We understand that there has been no material change in the financial position of ClubTelco since 31 March 2011 to the date of this Report.

Based on the nature of the assets and liabilities of ClubTelco as set out in Table 13 above, in our opinion, the fair value of ClubTelco's assets and liabilities as at 31 March 2011 would not be materially different from the values set out in Table 13.

We understand, however, that prior to completion of the Proposed Transaction, ClubTelco proposes to pay a dividend approximately equivalent to its retained earnings as at that date with the result that no cash (or cash equivalents) will be on hand.

6. Valuation of Eftel

6.1 Selection of Valuation Methodology

ASIC Regulatory Guide 111 outlines the appropriate methodologies which an expert should generally consider when valuing assets or securities for the purposes of, amongst other things, takeovers, schemes of arrangements, selective capital reductions, related-party transactions and share buybacks.

These include:

- the discounted cash flow (“DCF”) methodology and the estimated realisable value of any surplus assets;
- the application of earnings multiples appropriate for the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets;
- the amount that would be available for distribution to security holders on an orderly realisation of assets;
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price might not reflect their value, should 100% of the securities be available for sale; and
- any recent genuine offers received by the company for any business units or assets as a basis for valuation of those business units or assets.

Set out in Appendix C is a summary of the various valuation methods that are commonly used to assess the fair value of businesses and shares in companies which we have considered in the course of arriving at our conclusion on the value of the issued shares in Eftel. The selection of which methods are the most appropriate in any situation rests with the circumstances of the particular case.

Based on our understanding of Eftel, its operations, its current financial performance and its assets, in our opinion the most appropriate method for determining the fair market value of issued shares in Eftel is its net assets per share on a going concern basis.

As a secondary valuation methodology we have considered the quoted price of Eftel’s shares on the ASX.

William Buck has assessed the net assets per share on a going concern basis as the preferred valuation methodology for the following reasons:

- the value of Eftel’s net assets is principally based on assets acquired over recent years (in the form of network assets and goodwill from the acquisition of businesses). Whilst subject to uncertainty on the basis of going concern, the value of Eftel’s assets were not considered by Eftel’s auditors to be impaired either at 30 June 2010 or 31 December 2010. Accordingly, whilst the fair value of Eftel’s net assets may be greater than the carrying value of those assets, the carrying value of Eftel’s net assets may be considered to be at least a reasonable reflection of the fair value of those net assets;
- Eftel has not traded profitably in recent periods and, accordingly, an earnings based valuation methodology would not be appropriate;

- whilst Eftel is in the process of effecting a number of structural changes to its operations which are expected to result in the Company trading profitably into the future, it is too early to reasonably determine the impact of those changes and the level of sustainable future benefits which will be delivered by those changes. Accordingly, whilst Eftel has prepared its annual operating budgets for the coming year, it has not prepared detailed financial forecasts beyond this period due to the difficulties associated with formulating reasonably based assumptions, so as to allow a DCF methodology to be applied; and
- whilst Eftel's securities are listed on the ASX, in our opinion, trading in Eftel's shares is relatively illiquid (refer to our analysis in section 4.10 below) and the price at which Eftel's shares have traded reflects its historical operating performance.

Our valuation of the issued shares in Eftel based on the above methodologies is set out in the following Sections.

6.2 Valuation of Eftel Shares by Reference to Net Assets

6.2.1 Determination of Net Assets

Details of Eftel's net assets as at 31 December 2010 are set out in Table 7 above. As noted, we understand that there has been no material change in Eftel's financial position between 31 December 2010 and 31 March 2011.

We have undertaken a limited review of the carrying value of Eftel's assets and liabilities as at 31 March 2011 principally by reference to the following:

- comparison against audited accounts as at 30 June 2010 and reviewed accounts as at 31 December 2010;
- discussions with the auditors of Eftel as to their audit procedures as at 31 December 2010; and
- discussions with Eftel management as to the current status of the disposal of Eftel's assets held for resale and operating performance in general.

Value of Assets Held for Sale

Based upon our review we have been advised that limited progress has been achieved in respect of the disposal of Eftel's assets held for sale since 31 December 2010. In our opinion, given the limited progress made in respect of the disposal of Eftel's assets held for resale we have considered it prudent to allow a discount of between 15% and 25% on the carrying value so as to allow for potentially increased costs associated with the sale or the assets not achieving a sale price equivalent to its carrying value.

Stavretis Loan and Other proposed Borrowings

As noted in section 1.3 above, Eftel has entered into the Stavretis Loan pursuant to which it will borrow \$500,000. As also noted in section 1.3 above, the Stavretis loan is:

- at the request of Mr Stavretis and with the approval of Eftel's shareholders, convertible into Shares in Eftel at a price of \$0.01243 per Eftel Share, resulting in the potential issue of 40,225,261 Eftel shares; and
- conditional on Eftel raising up to an additional \$500,000 by way of loan funds.

The Stavretis Loan and other borrowings on which it is conditional will have no net effect on the level of Eftel's net asset, unless the Stavretis Loan is converted into Eftel Shares.

For the purpose of this Report we have undertaken our analysis on the alternative bases that:

- the Stavretis Loan will not be converted into Eftel Shares; and
- the Stavretis Loan will be converted into Eftel Shares if the Proposed Transaction is approved. If the Stavretis Loan is converted into Eftel Shares both the net assets of Eftel and the number of Eftel shares on issue will increase. The effect of the entering into of the Stavretis Loan (inclusive of the additional borrowing on which it is conditional) and its conversion into Eftel Shares should be reflected in Eftel's net assets.

Contingent Assets and Liabilities

As noted in section 4.7 above, Eftel is aware of a number of matters which may result in potential claims against the Company, or claims by the Company against other parties.

We have been advised by Eftel management that any potential claims against the Company are disputed by it and not considered to be in aggregate material, and that the quantum of any potential claims by the Company against other parties is not currently able to be reliably assessed.

Accordingly, we have not included any amounts for potential contingent assets or liabilities in determining the fair value of Eftel's net assets for the purpose of our valuation of Eftel's Shares.

Based upon our review, and subject to the above matters, we have not become aware of any matters that would lead us to believe that the carrying value of the net assets of Eftel as at 31 December 2010 is overstated.

6.2.2 Valuation of Shares in Eftel

Based upon the foregoing, our assessment of the fair value of the issued shares in Eftel is set out below:

Table 14 – Valuation of Shares in Eftel – Net Assets (Adjusted) on a Going Concern Basis

	Assuming the the Stavretis Loan is not Converted		Assuming the the Stavretis Loan is Converted	
	Low Value \$	High Value \$	Low Value \$	High Value \$
Net assets as at 31 December 2010	9,726,000	9,726,000	9,726,000	9,726,000
Less				
Discount applied to value of assets held for sale* - refer	(1,220,500)	(732,300)	(1,220,500)	(732,300)
Plus				
Cash Received Under the Stavretis Loan **	-	-	500,000	500,000
Net assets (Adjusted)	8,505,500	8,993,700	9,005,500	9,493,700
Number of Eftel shares on issue (inclusive of conversion of Stavretis Loan)	249,458,707	249,458,707	289,683,968	289,683,968
Value per Eftel share	\$0.0341	\$0.0361	\$0.0311	\$0.0328

Source: William Buck

* Low value allows for 25% discount for possibility of the assets not achieving a sale price equivalent to the carrying value of the assets. High value allows for 15% discount for possibility of the assets not achieving a sale price equivalent to the carrying value of the assets.

** No adjustment is required if the Stavretis Loan is not converted in respect of either the Stavretis Loan or the additional borrowings of \$500,000 that are a condition precedent of the Stavretis Loan as these result in an equal increase in cash assets and corresponding loan liability. If the Stavretis Loan is converted an adjustment is only required for the conversion of the Stavretis Loan but not for the additional borrowings of up to \$500,000 that are a condition precedent of the Stavretis Loan as this will result in an equal increase in cash assets and corresponding loan liability.

6.2.3 Control Premium

Our valuation of the shares in Eftel on a net asset basis represents a controlling interest value and accordingly no further adjustment for a premium for control is required.

6.3 Secondary Valuation Methodology

6.3.1 Eftel Quoted Share Prices

Our review of Eftel's quoted share price and trading in Eftel's shares is set out in section 4.10 above. As noted in section 4.10 above, we have reviewed the trading history of the listed shares in Eftel over the 12 months ended 7 April 2011, being the day prior to Eftel's announcement of the Proposed Transaction. We regard this to be the appropriate period for consideration, as any trading after that date will reflect the terms of the Proposed Transaction.

As noted in section 4.10 above, trading in Eftel's shares is relatively illiquid and accordingly this impacts upon the reliability of the use of Eftel's quoted share price in anything more than a secondary valuation approach.

Most significantly, in our opinion, Eftel's quoted share price has been adversely affected by its historical operating performance and the losses incurred to date.

Based on our analysis of the share price and VWAP history of trading in Eftel's shares over the Historical Trading Period, in our opinion, the VWAP of Eftel's shares on a quoted market price basis falls within the range of \$0.0118 per share and \$0.0125 per share based upon the 3-month VWAP and 12-month VWAP of trading in Eftel's share prior to the date of the announcement of the Proposed Transaction.

6.3.2 Allowance for dilution

We note that Eftel has no issued options and accordingly no consideration of allowance for potential dilution is required.

However, as noted in section 1.3 above the Stavretis Loan is convertible into Eftel Shares at the option of the holder at a price of \$0.01243 per Eftel Share. The conversion price is therefore within our assessed valuation range of Eftel's Shares prior to the date of the announcement of the Proposed Transaction and accordingly, for the purposes of our secondary valuation analysis, is not considered to be dilutionary.

6.3.3 Requirement for a Control Premium

The price at which Eftel's shares trade on the ASX represent the prices paid for minority parcels of shares.

We have considered whether or not an appropriate premium (for control or significant influence) is required to be reflected in the consideration under the Proposed Transaction.

As noted in Table 2, if the Proposed Transaction is approved entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) will be entitled to between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report.

It is generally accepted that minority parcels of shares in companies are generally valued at a discount to a 100% (or controlling) holding of shares in a company. Empirical evidence on premiums for control indicates that these premiums tend to range from 20% to 45% depending on the way in which the data has been compiled and analysed.

The extent of the premium reflects such factors as the following:

- the extent to which the holder can control the cash flows of the company; and
- the extent of synergies that may generally be available to any acquirer making the acquisition.

We understand that a significant reason for entering into the Proposed Transaction is the synergies expected to be achieved if the Proposed Transaction is approved – see section 8 below. Accordingly, in our opinion, the availability of significant synergy benefits would indicate that a significant premium for control should be applied to Eftel's quoted share price.

Having regard to the above, and the potential strategic benefits that control of Eftel would provide, we have applied a premium for control of 35% to 40%.

Applying the foregoing premium for control to Eftel's share price range of \$0.0118 to \$0.0125 per share would result in the following share valuations:

Table 15 – Valuation of Shares in Eftel – Quoted Market Price with Control

	Low Value \$	High Value \$
Share price - minority interest	0.0118	0.0125
Premium for control	35%	40%
Value per Eftel share - controlling interest	\$0.0159	\$0.0175

Source: William Buck

We note that the resultant controlling interest share value in Table 15 above represents a discount of 47% to 53% on Eftel's net assets per share valuation set out in section 6.2.2. As noted previously, in our opinion, Eftel's quoted share price has been adversely affected by lack of liquidity, its historical operating performance and the uncertainty as to going concern expressed in the auditor's audit reports and auditor's review reports issued in respect of Eftel's recent financial reports. Approval of the Proposed Transaction will result in the probable removal of the uncertainty as to going concern expressed in the auditor's reports. We note that Eftel's volume weighted share price following the announcement of the Proposed Transaction (from 8 April 2011 to 6 May 2011) has been \$0.0281 per share.

6.4 Conclusion on Value of Eftel Shares

In our opinion, based on the analysis set out above, the fair market value of the issued shares in Eftel is best determined on a net assets per share basis and is in the range of:

- \$0.0341 per share to \$0.0361 per share assuming that the Stavretis Loan is converted
- \$0.0311 per share to \$0.0328 per share assuming that the Stavretis Loan is not converted,

as set out in section 6.2.2 above.

7. Valuation of ClubTelco

7.1 Selection of Valuation Methodology

As noted previously, an overview of valuation methodologies commonly used to assess the market value of businesses and shares is set out at Appendix C of this Report.

We have selected the capitalisation of estimated future maintainable earnings ("**FME**") method to perform our valuation of ClubTelco and its shares.

We are of the view that the method selected is the most appropriate methodology to apply in the case of ClubTelco for the following reasons:

- sufficiently detailed and supportable forecast financial information is not available to enable the application of the Discounted Cash Flow ("**DCF**") valuation methodology;
- ClubTelco has provided adequate financial information in order to determine approximate normalised annualised EBITDA results for the year ending 30 June 2011 (which have been reviewed by us based on results for the nine months ended March 2011); and
- the net assets of ClubTelco do not properly reflect the value of the internally generated goodwill of the business.

The capitalisation of estimated FME method derives the enterprise value of ClubTelco and requires consideration of the following factors:

- selection of an appropriate level of estimated FME having regard to historical and forecast operating results, and after adjustment for non-recurring or non-business items of income and expenditure and also any known factors likely to affect the future operating performance of ClubTelco;
- profits arising from assets which are surplus to the operations of the sustainable business are eliminated and the assets, net of any liabilities relating thereto, are treated incrementally; and
- determination of an appropriate capitalisation multiple having regard to the market rating of comparable listed companies or businesses, the extent and nature of competition in the industry, quality of earnings, future growth opportunities, asset backing and relative investment risk.

Once the enterprise value of ClubTelco has been determined, adjustments are made to arrive at the equity value. The types of adjustments which are generally made include:

- deduction of any interest-bearing debt and inclusion of any interest-bearing deposits;
- application of premiums and/or discounts reflecting company specific risks and the nature of the interest being valued. The application of such premiums and discounts will depend upon the specific circumstances of the company which is being valued; and
- the addition of the market value of any surplus assets and/or subtraction of surplus liabilities.

Our derivation of the value of ClubTelco through the application of this method is explained in the following sections.

7.2 Estimated FME

7.2.1 Overview

The estimated FME reflect the core underlying earnings of a company which can, on average, be sustained by the company in the future, notwithstanding short-term fluctuations in economic conditions. The most common earnings levels used are earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) and earnings before interest and tax (“**EBIT**”).

EBIT has been selected as the earnings base for this valuation. The benefits of using EBIT as an earnings base over other measures is widely recognised as it removes the effect of different debt structures employed by the company being valued and any comparable listed companies. It also removes the effect of tax losses and changes in taxation legislation.

7.2.2 FME Determination

In order to derive a value for the estimated FME of ClubTelco for the purpose of this valuation, we have reviewed the following:

- actual historical financial performance for nine months ended 31 March 2011;
- estimated earnings for the year ending 30 June 2011 based on an annualisation of actual earnings for nine months ended 31 March 2011;
- ClubTelco’s management expected earnings for the year ending 30 June 2011; and
- adjustments to the earnings with respect to non-recurring and discretionary income and expenditure items and any non-arm’s length transactions in order to normalise the results.

Details of ClubTelco’s unaudited financial performance for the nine months ended 31 March 2011 are set out in section 5.5 above. As noted in section 5.5 above, the historical earnings of ClubTelco for the nine months ended 31 March 2011 do not include head office costs for such functions as legal and financial reporting which are incurred on a zero incremental cost basis by Dodo Group and are not on-charged to ClubTelco.

Based on the details set out in Table 12, we have “normalised” the financial results of ClubTelco for the nine months ended 31 March 2011 and annualised estimated results for the year ending 30 June 2011 for the following items:

- costs of a chief accountant, assistant accountant and accounts clerk totalling \$250,000 per annum based upon our review of publicly available information of salary levels for such personnel;
- estimated legal costs of \$20,000 per annum; and
- other administrative costs of \$50,000 per annum.

Based on the above, the following table sets out the estimated normalised financial performance of ClubTelco for the nine months ended 31 March 2011 and annualised statement of financial performance for the year ended 30 June 2011:

Table 16 – ClubTelco – Normalised Financial Performance

	Nine months ended 31 March 2011 \$000	Annualised FY 2011 \$000
EBIT as per management accounts	1,189	1,585
less: Normalisation Adjustments		
Accounting costs	(188)	(250)
Legal costs	(15)	(20)
Other	(38)	(50)
Normalised EBIT	949	1,265

Source: ClubTelco and William Buck

7.2.3 Selected Estimated FME

Based on our analysis, we have selected an FME in the range of \$1.2 million to \$1.3 million, based on the average normalised estimated earnings of ClubTelco for the year ending 30 June 2011 based on an annualisation of actual earnings for nine months ended 31 March 2011.

7.3 Capitalisation Multiple

7.3.1 Overview

Under a capitalisation of FME methodology, a capitalisation multiple is applied to the estimated FME of a business to arrive at the enterprise value of the business. The capitalisation multiple represents the rate of return that a knowledgeable investor would expect to earn from a business similar to that being valued. It takes into account the risk of variability in the estimated FME and the expected future growth in the earnings of the business.

Capitalisation multiples are usually determined in one of three ways, namely: through analysis of the multiples at which comparable listed companies trade; analysis of multiples observed for transactions undertaken by comparable companies; or, through derivation from first principles with reference to the rates of return available on alternative forms of investments.

We have considered a number of companies listed on the Australian Securities Exchange (“**ASX**”) and classified within the telecommunication and Internet service provider sector as being most comparable to ClubTelco.

The following table sets out a summary of the companies that we have identified as being comparable to ClubTelco, together with the respective enterprise value/EBIT multiples at which they are trading. Further information on these companies has been included at Appendix D and Appendix E of this Report.

Table 17: Capitalisation Multiples of Comparable Listed Companies

Company Name	ASX Code	Enterprise Value / EBIT			
		Current	FY11	FY12	FY13
Bigair Group Limited	BGL-AU	10.64	N/A	N/A	N/A
Eftel Limited	EFT-AU	(4.57)	N/A	N/A	N/A
Engin Limited	ENG-AU	41.11	N/A	N/A	N/A
Freshtel Holdings Limited	FRE-AU	(2.15)	N/A	N/A	N/A
Iinet Limited	IIN-AU	10.90	7.53	6.12	5.26
M2 Telecommunications Group Limited	MTU-AU	11.22	10.59	7.94	6.21
Macquarie Telecom Group Limited	MAQ-AU	6.24	8.22	7.16	5.82
MY Net Fone Limited	MNF-AU	9.41	N/A	N/A	N/A
TPG Telecom Limited	TPM-AU	12.28	10.26	7.86	6.71
Average		10.56	9.15	7.27	6.00
Average (excluding negative multiples)		15.40	9.15	7.27	6.00
Average (excluding negative multiples and outliers)		10.25	9.15	7.27	6.00
Median		10.64	9.24	7.51	6.01
Median (excluding negative multiples)		11.06	9.24	7.51	6.01
Median (excluding negative multiples and outliers)		10.90	9.24	7.51	6.01

Forecast multiples for FY11, FY12 and FY13 are based on forecast enterprise value

N/A - Forecast information unavailable

Current multiples are based on enterprise values and trailing twelve month (TTM) results as at 31 December 2010 with the exception of Bigair Group Limited (30/06/2010) and TPG Telecom Limited (31/01/2011)

Source: Thomson Reuters

We have considered the following factors in assessing the appropriateness of applying the above multiples to ClubTelco:

- the ASX listed companies noted as being comparable to ClubTelco typically provide a variety of telecommunication and Internet services;
- the companies for which forecast EBIT multiples are available are typically larger than ClubTelco in terms of both revenues and EBIT; and
- a number of the larger comparable companies operate both in Australia and in some overseas countries (for example New Zealand and Singapore).

7.3.2 Selected Capitalisation Multiple for Valuing ClubTelco

Based on the foregoing, we have adopted the range of capitalisation multiples from 9.0 to 9.5 times estimated forecast EBIT for the year ending 30 June 2011 for the purpose of the valuation of ClubTelco. Our range has been based on the average and median forecast EBIT multiples for the year ending 30 June 2011 of the comparable companies noted in Table 17 above.

The selected capitalisation multiples of 9.0 to 9.5 times EBIT represent minority interest multiples for listed public companies. In applying the select multiple range to value ClubTelco appropriate adjustments are required for the fact that the valuation required in this Report is of a 100% controlling interest in an unlisted private company. Accordingly, the required adjustments relate to such factors as control premium, marketability discount and company specific premiums or discounts based on differences between the comparable listed public companies on which the selected range of multiples is based and ClubTelco.

7.4 Valuation Calculation

Based on the above, our valuation of ClubTelco is set out in the table below:

Table 18: Equity Valuation of ClubTelco

	Low	High
Estimated FY2011 EBIT	\$1,200,000	\$1,300,000
Multiple	9.00	9.50
Enterprise value	\$10,800,000	\$12,350,000
Less Interest Bearing Debt - Refer 7.4.2	(195)	(195)
Plus Cash - Refer 7.4.2	-	-
Equity Value (Before Adjustments)	\$10,800,195	\$12,350,195
Premiums / Discounts		
Control Premium	25%	30%
Marketability Discount	-30%	-30%
Company Specific	-15%	-15%
Equity Value (After Adjustments)	\$8,032,645	\$9,552,876
Effective EBIT Multiple (Private Company)	6.69	7.35

Source: William Buck

Details regarding the above calculations are set out below.

7.4.1 Enterprise Value

The enterprise value was determined by multiplying the estimated FME determined in section 7.2.3 of this Report by the capitalisation multiple determined in section 7.3.2.

7.4.2 Net Interest-Bearing Debt

In order to calculate the equity value of ClubTelco (before other adjustments), we have considered the likely level of net interest bearing debt that will exist in ClubTelco as at the completion date if the Proposed Transaction is approved.

Whilst we note that ClubTelco had cash and cash equivalents of approximately \$1 million on hand as at 31 March 2011 we understand that (as noted at section 5.6 above) prior to completion of the Proposed Transaction ClubTelco proposes to pay a dividend approximately equivalent to its retained earnings as at that date with the result that no cash (or cash equivalents) will be on hand. Further, as retained earnings at 31 March 2011 are in excess of the balance cash and cash equivalents a loan for any excess amount payable will result. We have estimated this loan at approximately \$195,000 based on the balance of ClubTelco's retained earnings and cash and cash equivalents as at 31 March 2011.

7.4.3 Control Premium

Our selected capitalisation multiple range was derived from the multiples observable in listed entities. Minority parcels of shares are traded on an organised exchange. Therefore, the share price reflects a minority interest value. When an entity is owned 100% by a single shareholder, the shareholder is said to exercise control over that entity.

Since Eftel is acquiring 100% of ClubTelco pursuant to the Proposed Transaction an appropriate control premium is required.

As noted in section 6.3.3 above, empirical evidence on premiums for control indicates that these premiums tend to range from 20% to 45% depending on the way in which the data has been compiled and analysed.

Based on available market evidence of control premiums, we have applied a control premium of between 25% and 30%.

7.4.4 Marketability Discount

Listed companies tend to be valued at higher capitalisation multiples than private companies, which reflect the benefits of their marketability and liquidity and their generally tighter corporate governance and disclosure requirements.

Based on generally accepted valuation practice, we believe that the valuation of the issued shares warrants a discount in the order of 30% to reflect the lack of marketability and liquidity associated with holding shares in ClubTelco.

7.4.5 Company Specific Discount

The comparable listed companies selected in deriving the capitalisation multiple are significantly larger than ClubTelco. Whilst the operational risks faced by the comparable companies are similar to the risks faced by ClubTelco, we expect that these risks would generally be higher for ClubTelco due to its smaller size and scale relative to the selected comparable companies. Accordingly, we believe that a risk premium to reflect the additional risk faced by ClubTelco is appropriate. The additional risks relate to factors such as the following:

- size of the business: ClubTelco is smaller than all of the comparable companies. Larger companies tend to be valued at higher earnings multiples which reflect the benefits of size in

matters such as market power, control over prices and costs, size of operations, diversity of customers, and general operational and financial robustness. As a result, we would consider that a discount is appropriate; and

- dependence on key management: As with most private companies, ClubTelco is relatively highly dependent on a small number of key staff in the conduct of its operations. By comparison listed companies generally have “deeper” management teams and are not dependent on any key individuals. In our opinion, this is a major risk associated with ClubTelco and a discount is appropriate.

To our knowledge, there are no formal studies in Australia which provide a guide on the appropriate quantum to adopt. For the purposes of this valuation, we have adopted a specific company discount of 15% to reflect ClubTelco’s differences in size, dependence on key staff and scale relative to the comparable companies.

7.4.6 Other Matters

Based upon our review of the assets and liabilities of ClubTelco as at 31 March 2011, we understand that there exist no surplus assets or surplus liabilities that require adjustment in determining the value of ClubTelco.

7.5 Valuation Conclusion

Based on the foregoing analysis, the fair market value of 100% of the issued shares of ClubTelco falls within the range of \$8.0 million to \$9.6 million, with a mid-point value of approximately \$8.8 million.

8. Valuation of Synergies

8.1 Overview

Eftel currently acquires a significant proportion of its wholesale telecommunications services, (including ADSL services, IP data and backhaul, and fixed line services) from Dodo Wholesale Pty Limited ("**Dodo Wholesale**") under a wholesale supply agreement (the "**Eftel Wholesale Arrangements**").

Dodo Wholesale is an associate of CTA, ClubTelco's current owner, and also provides to ClubTelco a range of wholesale telecommunications services, including ADSL services, IP data and backhaul, fixed line voice, mobile voice and mobile broadband services (the "**ClubTelco Wholesale Arrangements**").

We understand that the terms of the ClubTelco Wholesale Arrangements are significantly more favourable than the terms of the Eftel Wholesale Arrangements.

Further, we understand that if the Proposed Transaction is approved, CTA will procure (and Dodo Wholesale has agreed) for Dodo Wholesale to an amendment of the Eftel Wholesale Arrangements so that:

- the prices paid by Eftel for services under the Eftel Wholesale Arrangements are reduced where necessary so that they are no higher than the prices paid by ClubTelco for equivalent services under the ClubTelco Wholesale Arrangements; and
- any minimum contract term commitments under the Eftel Wholesale Arrangements are reduced where necessary so that they expire no later than any minimum contract term commitments made by ClubTelco under the ClubTelco Wholesale Arrangements.

In addition to the benefit of the lower cost wholesale arrangements noted above, we understand that if the Proposed Transaction is approved, cost synergies are also expected to be derived in respect of the following:

- employment costs;
- rent costs;
- consultancy costs; and
- finance costs.

8.2 Expected Synergies

8.2.1 Wholesale Arrangement Benefits

Based on existing active service numbers and a comparison of the difference between the Eftel Wholesale Arrangements and the ClubTelco Wholesale Arrangements, Eftel has estimated that the cost saving to be derived from a change in Eftel's Wholesale Arrangements would be approximately \$184,000 per month.

In addition, Eftel has estimated that (based on current pricing) an additional cost saving in respect of the purchase of wholesale services of approximately \$15,000 per month can be derived.

8.2.2 Employment Cost Synergies

The combined work force of Eftel and ClubTelco is not expected to be subjected to drastic reviews with the focus to be on the growth of the combined entity. However it is expected that there will exist some level of duplication of personnel and that some synergy benefits will be available to be derived in respect of employment costs.

8.2.3 Rent Synergies

Eftel's Melbourne office has a lease that runs out in May 2011. It is expected that the Eftel team members will relocate to the location of the ClubTelco in Melbourne resulting in an expected net saving of approximately \$3,000 per month.

8.2.4 Consultancy Synergies

It is also expected that savings will be experienced through the elimination of duplicated compliance costs for audit and other consultancy services.

8.3 Valuation of Synergy Benefits

In our opinion, in addition to the value of the current value of ClubTelco, approval of the Proposed Transaction can be expected to deliver additional value to Eftel in the form of the reduced costs and other synergy benefits noted in section 8.2 above.

For the purposes of this Report we have sought to determine the value of the above synergy benefits, being those in respect of:

- wholesale arrangement benefits; and
- rent benefits.

In addition, in order to recognise the possibility that not all synergy benefits may be achieved, we have discounted the expected benefits by 10%.

Notwithstanding that the synergy benefits are expected to accrue to Eftel, we have valued the benefits by reference to the effective EBIT multiple implicit in our valuation of ClubTelco as follows:

Table 19: Valuation of Synergy Benefits

	Note	Low	High
Expected Annual Cost Synergies:			
- Reduced wholesale costs	1	\$2,208,000	\$2,208,000
- Reduced additional wholesale costs	2	\$180,000	\$180,000
- Reduced rental costs	3	\$36,000	\$36,000
Total		2,424,000	2,424,000
Less allowance for non achievement	10%	(242,400)	(242,400)
Total expected annual cost synergies		\$2,181,600	\$2,181,600
Multiple	4	6.69	7.35
Value of Synergy Benefits		\$14,602,994	\$16,030,868

Notes:

1. Calculated at \$184,000 per month.
2. Calculated at \$15,000 per month.
3. Calculated at \$3,000 per month.
4. Based on effective ClubTelco EBIT multiple.

Source: William Buck

9. Evaluation of the Proposed Transaction

9.1 Basis of the Evaluation of the Proposed Transaction

In our opinion, the Proposed Transaction will be fair and reasonable if:

- the fair market value of the shares in ClubTelco to be acquired by Eftel, together with the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco and the amount to be received for the Placements under the Proposed Transaction is greater than the fair market value of the shares in Eftel being offered under the Proposed Transaction;
- on balance, the advantages to the Non-Associated Shareholders of approving the Proposed Transaction outweigh the disadvantages; and,
- on balance, the disadvantages to the Non-Associated Shareholders of not approving the Proposed Transaction outweigh the advantages.

9.2 Assessment of Fairness of the Proposed Transaction

Based on our analysis, we set out below a summary of our valuation opinion in respect of the Proposed Transaction comprising a comparison between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction.

Table 20 – Assessment of Fairness

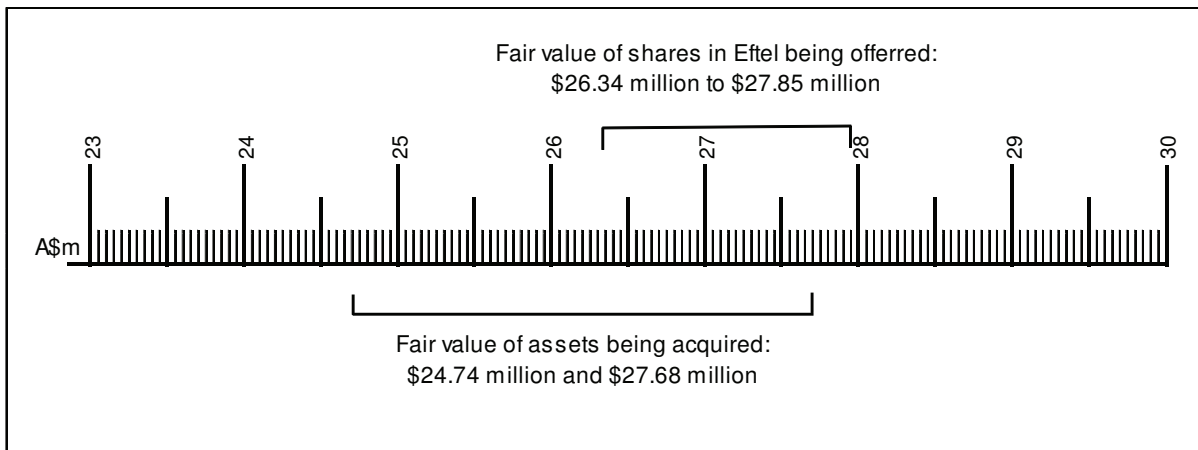
	Section Ref.	Assuming the the Stavretis Loan is not Converted		Assuming the the Stavretis Loan is Converted	
		Low Value	High Value	Low Value	High Value
Value of Assets being Acquired					
Value of shares in ClubTelco	7.4 & 7.5	\$8,032,645	\$9,552,876	\$8,032,645	\$9,552,876
Value of Cannes Placement	1.1	\$1,407,000	\$1,407,000	\$1,407,000	\$1,407,000
Value of MIS Placement	1.1	\$693,000	\$693,000	\$693,000	\$693,000
Value of Synergies	8.3	\$14,602,994	\$16,030,868	\$14,602,994	\$16,030,868
Value of Consideration Shares and Placements		\$24,735,639	\$27,683,744	\$24,735,639	\$27,683,744
Value of Eftel Consideration					
Value of Shares in Eftel - Controlling Interest	6.4	\$0.0341	\$0.0361	\$0.0311	\$0.0328
Number of Eftel Shares to be Issued under the Proposed Transaction:					
- Issue of Consideration Shares	1.1	603,529,130	603,529,130	603,529,130	603,529,130
- Issue of Shares under the Cannes Placement	1.1	113,222,065	113,222,065	113,222,065	113,222,065
- Issue of Shares under the MIS Placement	1.1	55,766,092	55,766,092	55,766,092	55,766,092
		772,517,287	772,517,287	772,517,287	772,517,287
Value of Consideration Shares and Placements		\$26,339,613	\$27,851,458	\$24,015,497	\$25,317,409

Source: William Buck

A graphic representation of the comparisons of our valuation ranges is set out below:

Assuming that the Stavretis Loan is not Converted

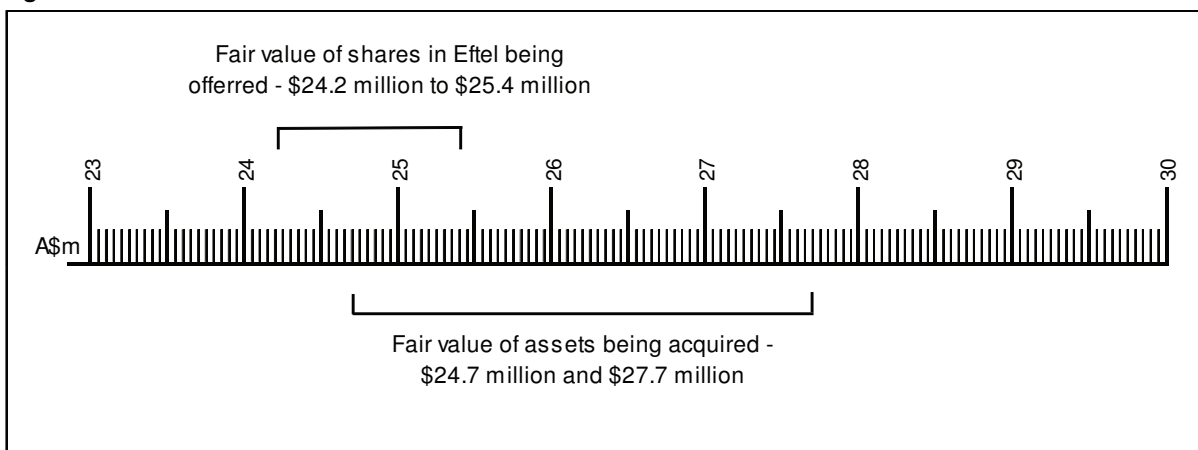
Figure 8



Source: William Buck: Approximate graphic representation only

Assuming that the Stavretis Loan is Converted

Figure 9



Source: William Buck: Approximate graphic representation only

It may be seen from the above that, under either scenario, there is an overlap between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction.

Accordingly, in our opinion, the Proposed Transaction is considered fair from the perspective of the Non-Associated Shareholders of Eftel.

9.3 Assessment of Reasonableness of the Proposed Acquisition

We have considered the following factors in determining whether or not the Proposed Transaction is reasonable to the Non-Associated Shareholders of Eftel.

9.3.1 Advantages of approving the Proposed Transaction

The following may be considered advantages of approving the Proposed Transaction:

- **Consideration is fair:** The consideration under the Proposed Transaction is “fair”;
- **New and experienced management:** Approval of the Proposed Transaction will introduce a new management to Eftel bringing significant experience, skills and contacts in providing telecommunication and Internet services;
- **Introduction of strategic investors:** Approval of the Proposed Transaction will introduce key strategic investors, including interests connected with Mr Kestelman and Mr Slepoy (who are co-owners of the Dodo Australia Group of Companies) which, in combination with other benefits noted, should assist in establishing a stronger market presence;
- **Significant synergy benefits:** Approval of the Proposed Transaction can potentially deliver synergy benefits to Eftel over and above those quantified as part of our “fairness” assessment. The realisation of these cost saving benefits is expected to improve Eftel's profitability;
- **Injection of capital:** The approval of the Proposed Transaction will result in an additional \$2,100,000 of equity capital being injected into the Company which will help facilitate completion of Eftel's strategic initiatives and provide working capital for future growth;
- **Avoidance of drain on capital:** The approval of the Proposed Transaction will result in Eftel acquiring ClubTelco by way of the issue of shares without the need to incur significant capital raising costs or commit to loan finance that would include interest costs and regular principal repayments;
- **Removal of existing uncertainties:** In our opinion, Eftel's quoted share price has been adversely affected by the uncertainty as to going concern expressed in the auditor's audit reports and auditor's review reports issued in respect of Eftel's recent financial reports. Approval of the Proposed Transaction should result in the removal of the uncertainty as to going concern expressed in the auditor's reports; and
- **Increased market capitalisation:** The potential increase in the market capitalisation of Eftel may lead to increased coverage from capital market analysts, improved access to equity capital market opportunities and increased liquidity in its share trading.

9.3.2 Disadvantages of approving the Proposed Transaction

The following may be considered disadvantages of approving the Proposed Transaction:

- **Existing shareholders' interest in the Company will be diluted:** By approving the Proposed Transaction the interests of the Non-Associated Shareholders will be diluted;
- **Loss of control:** Approval of the Proposed Transaction will result in entities associated with Mr Larry Kestelman and Mr Michael Slepoy (namely, CTA, Cannes Management and MIS) becoming entitled to between 72.7% and 75.6% of Eftel's enlarged share capital – refer section 1.2 of our Report. Accordingly, the existing Non-Associated Shareholders will effectively lose control of Eftel;

- **Risk of not achieving synergies:** A significant part of the value expected from the approval of the Proposed Transaction is in the form of the expected synergy benefits, in particular the synergy benefits arising from the restructure of Eftel's wholesale service purchase arrangements – refer section 8 of our Report. Notwithstanding that our analysis includes a provision of the potential risk of not achieving the identified synergy benefits, by approving the Proposed Transaction the Non-Associated Shareholders will be exposed to the risk that the synergy benefits may not be achieved to the extent expected. This will result in the ultimate value of the synergy benefits being less than the value assessed in this Report and may result in the fair value of the assets being acquired under the Proposed Transaction being less than the fair value of the Eftel Shares to be issued under the Proposed Transaction; and
- **Investment in relatively 'early stage' business:** Whilst the ClubTelco business has been established for some years, it has been in CTA's ownership for less than a year. Accordingly, the full potential of ClubTelco has yet to become fully evident under its existing ownership.

9.3.3 Advantages and disadvantages of not approving the Proposed Transaction

In our view, the significant advantages or disadvantages of rejecting the Proposed Transaction include the reverse of the matters noted above, as well as the following:

- **Ability to pursue alternative investments:** By not approving the Proposed Transaction Eftel will be able to continue to explore alternative potential acquisitions and investments. However, we note that whilst alternative investments may be pursued by Eftel there is no guarantee that feasible opportunities may emerge; and
- **Post announcement share price:** We note that Eftel's share price increased significantly following the announcement of the Proposed Transaction. Failure to approve the Proposed Transaction may result in a fall in Eftel's share price to the level prevailing prior to the announcement of the Proposed Transaction.

9.3.4 Overall conclusion on advantages and disadvantages of the Proposed Transaction

In our opinion, based on a consideration of the above, the Proposed Transaction is considered reasonable from the perspective of the Non-Associated Shareholders of Eftel as:

- on balance, the advantages of approving the Proposed Transaction outweigh the disadvantages of approving it to the Non-Associated Shareholders; and
- on balance, the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting it to the Non-Associated Shareholders.

9.4 Conclusion on Proposed Transaction

In our opinion the Proposed Transaction is, on balance, fair and reasonable to the Non-Associated Shareholders of Eftel.

There is an overlap between:

- our valuation of the shares in ClubTelco to be acquired by Eftel, together with the value of the value of the funds to be received under the Placements and the value of the synergy benefits expected to be delivered by the acquisition of ClubTelco, under the Proposed Transaction; and
- our valuation of the shares in Eftel being offered under the Proposed Transaction,

and accordingly the Proposed Transaction is considered fair from the perspective of the Non-Associated Shareholders of Eftel.

On balance, the advantages of approving the Proposed Transaction outweigh the disadvantages to the Non-Associated Shareholders and the disadvantages of rejecting the Proposed Transaction outweigh the advantages of rejecting the Proposed Transaction.

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10. Qualifications

10.1 Qualifications

William Buck has extensive experience in the provision of corporate finance advice including with respect to mergers and acquisitions.

William Buck is an authorised representative of William Buck Financial Services (NSW) Pty Ltd which holds an Australian Financial Services Licence issued by ASIC for giving expert reports pursuant to the Listing Rules of the ASX and NSX and the Act.

The directors of William Buck responsible for the preparation of this Report are Mr Domenic Quartullo and Mrs Manda Trautwein.

This Report was prepared by Mr Domenic Quartullo, a director of William Buck. He is a Chartered Accountant and holds a Bachelor of Arts (Accounting) and Bachelor of Laws degree from Macquarie University. Mr Quartullo has over 25 years experience in Chartered Accountancy and has had extensive experience in the areas of litigation support, preparation and review of business feasibility studies, financial investigations, business valuations, independent expert's reports and due diligence reviews. His valuation experience covers a wide range of industries for both public and private companies. Accordingly, Mr Quartullo has the appropriate experience and professional qualifications to provide the advice offered.

Mrs Manda Trautwein is a director of William Buck and an active Member of the Institute of Chartered Accountants and its Forensic Accounting and Business Valuation Special Interest Groups. She holds a Bachelor of Commerce degree and a Master of Applied Finance degree from Macquarie University and a Master of Applied Taxation degree from the University of New South Wales. Mrs Trautwein regularly advises clients on corporate transactions and is experienced in the provision of valuations of shares and businesses for a variety of applications. Accordingly, Mrs Trautwein has the appropriate experience and professional qualifications to provide the advice offered.

Further details of the experience and qualifications of Mr Quartullo and Mrs Trautwein are set out in Appendix F to this Report.

10.2 Independence and Declarations

William Buck is not aware of any matter or circumstance that would preclude it from preparing this report on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

William Buck considers itself to be independent in terms of RG 112: Independence of Experts, issued by ASIC.

Neither William Buck, nor any of its related entities, have acted for Eftel with regard to any matter in the past and we are not aware of any matters or relationship that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

William Buck is entitled to receive a fee for the preparation of this Report of approximately \$30,000 plus GST and disbursements. This fee is not contingent on the outcome of the Proposed Transaction. Except for this fee William Buck has not received and will not receive any pecuniary or other benefit, whether direct or indirect, for or in connection, with the preparation of this Report and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

Three drafts of this Report were provided to the Directors of Eftel for review of factual accuracy, as opposed to opinions, which are the responsibility of William Buck alone. Certain changes were made to the Report as a result of the circulation of the draft report. However, no changes were made to the methodology, conclusions or recommendations made to the Non- Associated Shareholders as a result of issuing the draft Reports.

The statements contained in this Report are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

11. Appendices

11.1 Appendix A – Sources of Information

- a) Draft Share Subscription Agreement between Eftel, ClubTelco, Cannes Management and MIS Investments for the subscription of shares in Eftel in consideration for the Acquisition, the Cannes Placement and the MIS Placement;
- b) Draft Share Sale and Purchase Agreement between Eftel and CTA in relation to the sale of 1005 of the issued shares in ClubTelco to Eftel;
- c) Draft Notice of Meeting and Explanatory Memorandum to be issued in relation to the Proposed Transaction;
- d) Share registers of Eftel and ClubTelco;
- e) Historical audited financial statements for Eftel for the years ended 30 June 2005 to 30 June 2010 and the auditor reviewed financial statements for Eftel for the six-months ended 31 December 2010;
- f) Eftel management accounts for the nine-months ended 31 March 2011;
- g) Eftel company information relating to corporate structure, organisational structure, employees, operating strategy and other matters obtained from Eftel;
- h) Eftel financial budgets of Eftel for the years ending 30 June 2011 and 2012 and supporting explanatory materials;
- i) Historical share trading data for Eftel obtained from ThomsonOne and other sources;
- j) Eftel company announcements made to the ASX;
- k) ClubTelco company information relating to corporate structure, organisational structure, employees and other matters;
- l) Historical unaudited financial statements for ClubTelco for the nine-months ended 31 March 2011;
- m) ClubTelco financial budget for the year ending 30 June 2012;
- n) Comparable company descriptions and data obtained from ASX, ThomsonOne, and the Australian Graduate School of Management: Risk Management Service;
- o) Publicly available economic analysis reports published by major Australian trading banks and economic forecasting bodies;
- p) Publicly available industry analysis reports published by industry research companies; and
- q) Discussions and correspondence with management of Eftel and ClubTelco.

11.2 Appendix B – Abbreviations and Definitions

Term	Definition
Acquisition	The acquisition of 100% of the issued shares of ClubTelco Pty Limited in exchange of the issue of 603,529,130 Shares issued at approximately 1.243 cents per share
Acquisition Date	8 April 2011
Act	Corporations Act 2001
Announcement Date	8 April 2011
APES	Accounting Professional and Ethical Standard
ASAE	Australian Standards on Assurance Assignments
ASIC	Australian Investments and Securities Commission
ASRE	Australian Standards on Review Assignments
ASX	ASX Limited – ACN 008 624 691
ASX Listing Rules	Rules of ASX which are applicable while the Company
AUS	Australian Auditing Standards
Cannes Management	Cannes Management Pty Limited - ACN 104 506 532
Cannes Placement	Issue of 113,222,065 Shares to Cannes Management in its capacity as trustee for the Kestelman Family Trust No. 2 in consideration for the payment of \$1,407,000
ClubTelco	ClubTelco Pty Limited - ACN 144 488 620
Company	Eftel Limited - ACN 073 238 178
Consideration Shares	Issue of 603,529,130 Shares issued at approximately 1.243 cents per share to CTA for the acquisition of 100% of the issued shares in ClubTelco
CTA	ClubTelco Australia Pty Limited - ACN 144 000 135
Datafast	Datafast Telecommunications Limited (the former name of Eftel)
DCF	Discounted cash flow
Directors	The directors of Eftel
Dodo Group	Dodo Australia Pty Limited and its related companies
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Eftel	Eftel Limited - ACN 073 238 178
EM	Notice of General Meeting and Explanatory Memorandum to be issued in connection with the Proposed Transaction
FME	Future maintainable earnings
Historical Trading Period	12 months ended 7 April 2011

Term	Definition
ISP	Internet service provider
Management Deed	The management deed between Eftel and ClubTelco pursuant to which Eftel agrees to provide management services to ClubTelco
MIS Investments	MIS Investments Pty Limited - ACN 104 128 636
MIS Placement	Issue of 55,766,092 Shares to MIS Investments in its capacity as trustee for the Slepoy Family Trust No. 3 in consideration for the payment of \$693,000
Non-Associated Shareholders	Those shareholders in Eftel whose votes are not to be disregarded in voting on the resolutions relating to the Proposed Transaction
Placements	Collectively the Cannes Placement and the MIS Placement
Proposed Transaction	The transaction which is the subject of this Report comprising the Acquisition and the Placements
Report	This report prepared by William Buck dated 26 May 2011
RG	Regulatory Guides issued by ASIC
RG 111	Regulatory Guide 111: Content of Expert Reports
RG 112	Regulatory Guide 112: Independence of Experts
RG 170	Regulatory Guide 170: Prospective financial information
Section 606	Section 606 of the Act
Section 611	Section 611 of the Act
Shares	Fully paid ordinary shares in Eftel
Shareholders	The holders of fully paid ordinary shares in Eftel
Stavretis Loan	Agreement entered into between Eftel and Mr Scott Stavretis, pursuant to which Mr Stavretis will provide a loan to Eftel of \$500,000 which is, at the request of Mr Stavretis and with the approval of Eftel's shareholders, convertible into Shares in Eftel at a price of \$0.01243 per Eftel Share
TTM	Trailing twelve months
Valuation Date	7 April 2011
VWAP	Volume Weighted Average Price
William Buck , we, us, our	William Buck Corporate Advisory Services (NSW) Pty Ltd ACN 133 845 637

11.3 Appendix C – Valuation Methodologies for Businesses and Shares

Discounted Cash Flow (“DCF”) Method

The DCF approach is a technically superior methodology since it allows for fluctuations in future performance to be recognised. This methodology derives the enterprise value of an entity by discounting its expected future cash flows.

In applying the DCF valuation methodology consideration must be given to the following factors:

- The estimated future cash flows of the business for a reasonable period including as assessment of the underlying assumptions.
- An estimate of the terminal value of the business at the end of the forecast period.
- The assessment of an appropriate discount rate that quantifies the risk inherent in the business and reflects the expected return to which investors can obtain from investments having equivalent risks.

Capitalisation of Estimated FME

The capitalisation of estimated FME method is useful as a primary valuation technique where the DCF methodology cannot be used. This method derives the enterprise value of the entity and requires consideration of the following factors:

- Selection of an appropriate level of estimated FME having regard to historical and forecast operating results, and adjusting for non-recurring or non-business items of income and expenditure in addition to any known factors likely to affect the future operating performance of the business.
- Profits arising from assets which are surplus to the operations of the sustainable business are eliminated and the assets, net of any liabilities relating thereto, treated incrementally.
- Determination of an appropriate capitalisation multiple having regard to the market rating of comparable companies or businesses, the extent and nature of competition in the industry, quality of earnings, future growth opportunities, asset backing and relative investment risk.

Net Asset Backing Approach

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- Separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets, and
- Ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- Orderly realisation: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is

wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value

- Liquidation: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value, or
- Going concern: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net asset backing value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The application of the net asset backing methodology is appropriate where a company:

- Is not trading, or
- Is making sustained losses or profits but at a level less than the required rate of return, or
- Is close to liquidation, or
- Is a holding company, or
- Holds assets which are liquid.

It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Share Market Trading History

The application of the price that a company's shares trade on an organised exchange is an appropriate basis for valuation where:

- The shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares, and
- The market for the company's shares is active and liquid.

In such circumstances, the prices at which shares have traded are regarded as reflective of the elements included in the definition of "fair market value".

Recent Share Subscription Prices

The price at which unrelated parties have recently subscribed for shares in a company can be an appropriate methodology to apply in valuing the issued equity in the company, if those prices were paid in freely negotiated transactions in an open and unrestricted market between a knowledgeable, willing, but not anxious, parties acting at arm's length.

In applying this methodology it is relevant to consider the following factors:

- The timing of any shares issues
- Any pre-existing relationship (if any) between the subscribers to the shares and the company
- The level of knowledge that the parties subscribing to the shares could reasonably be assumed to possess, and
- the extent of any material changes in circumstances that have occurred between the date on which the shares were issued and the valuation date.

Capitalisation of Estimated Future Maintainable Dividends

The mechanics of the capitalisation of estimated future maintainable dividends valuation method is similar to that of the capitalisation of estimated future maintainable earnings method. The methodology is most commonly applied to minority holdings in private companies and unlisted public companies. It requires the estimation of future maintainable earnings, the likely distribution of such earnings as dividends and the application of an appropriate dividend yield or discount rate.

The capitalisation of estimated future maintainable dividends methodology is generally applicable only where the equity interest subject to valuation has no effective control in the determination of dividend policy.

11.4 Appendix D – Comparable Company Descriptions

The following table sets out details of the business activities of the companies selected by us as being broadly comparable to ClubTelco.

Table 21 – Assessment of Fairness

Quote Symbol	Company	Business Description
BGL-AU	Bigair Group Limited	BigAir Group Limited is an Australia-based company. The Company is principally engaged in the business of providing wireless broadband services. It provided broadband communications services using wireless technologies to the wholesale Internet service provider (ISP), business and residential markets. During the fiscal year ended June 30, 2010 (fiscal 2010), it focused on the wholesale ISP and carrier markets. The Company is organized into two operating divisions: mobile wireless division and fixed wireless division. It operates in Australia. The Company's network coverage consists of Sydney, Melbourne, Brisbane, Perth, Adelaide, Gold Coast, Newcastle and the Sunshine Coast. As of June 30, 2010, the total number of base stations across the Company's network was 75. On July 1, 2010, it acquired assets and customer base of Star-Tech Communications. On February 28, 2011, the Company has completed the compulsory acquisition of Clever Communications Australia Limited.
EFT-AU	Eftel Limited	Eftel Limited is an Australia-based company. The Company is engaged in provision of telecommunications and supply of Internet services. It provides Internet and telephony services to wholesale, corporate and retail customers. The Company offers a range of wholesale services, including Internet protocol (IP), co-location, dialup ports and digital subscriber line (DSL) broadband. Its retail services provide consumer Internet products, which include aaNet. The Company, through ownership and partnership, operates the BroadbandNext network. The Company is a preferred supplier to the Victorian Government. The Company's subsidiaries include Datafast Telecommunications Pty Ltd.
ENG-AU	Engin Limited	Engin Limited is an Australia-based company. The Company is engaged in the delivery of broadband telephony services and the sale of related hardware to its customer, branded as engin. It provides broadband telephony services within Australia. The Company's broadband plans include mychoice plans, voic over internet protocol (VoIP) ignition-broadband and VoIP bundles, and landline ignition-broadband and landline bundles. During the fiscal year ended June 30, 2010 (fiscal 2010), its product, DSL2+, provided 3,000 services. The Company's subsidiaries include MIBroadband Pty Limited and Innocom Systems Pty Limited. As of October 14, 2009, the Company held 100% interest in Innocom Systems Pty Limited.
FRE-AU	Freshtel Holdings Limited	Freshtel Holdings Limited is an Australia-based company. The Company is engaged in the development and commercialization of voice-over Internet protocol (VoIP) products and services. The Company operates in two business segments: Fixed VoIP and White label. Fixed VoIP includes call termination revenue sold both in Australia and the United Kingdom. White label includes license fees, capacity contribution, service management, active subscribers, hardware royalties and change request fees sold in the United Kingdom. Its subsidiary is Freshtel Australia Pty Limited. On April 30, 2010, the Company disposed Freshtel UK Limited, which was engaged in the Company's overseas VoIP operations. The Company's subsidiaries include Freshtel Australia Pty Limited and Freshtel UK Limited. During the fiscal year ended June 30, 2010, the Company's operations in the United Kingdom were sold to a related party.
IIN-AU	iiNet Limited	iiNet Limited (iiNet) provides Internet and telephony services in Australia. The Company is a digital subscriber line (DSL) internet service provider (ISP). During the fiscal year ended June 30, 2010 (fiscal 2010), the Company launched BoB and IPTV. BoB is a device combining phone and internet services. Its products include Freezone and fetchtv. iiNet's Freezone offers customers high speed un-metered content, like television shows, music and multi-player gaming. iiNet's Freezone also includes Super 14 rugby, iTunes, Xbox 360 downloads, LocoTV, and more than 60 radio stations, as well as a large software download area and 3FL. The Company's residential products include Internet access, home phone services, Internet phone services, Web hosting, domain registration, hardware and software. In September 2010, Telecom Corporation of New Zealand Limited sold its AAPT Consumer Division to iiNet. On April 30, 2010, the Company acquired Netspace Group.

Quote Symbol	Company	Business Description
MTU-AU	M2 Telecommunications Group Limited	M2 Telecommunications Group Limited is engaged in the supplying of fixed line voice, mobile telecommunications and broadband data services within the Australian and New Zealand markets through its retail and wholesale operating divisions. Retail business segment offers unique packaged telecommunications services, targeted particularly to small and medium sized enterprises, offering fixed line voice services, including line rental services, mobile voice and data services, information technology (IT), terrestrial dial-up and broadband Internet services, as well as mobile telephone hardware. Wholesale business segment offers a full suite of fixed-line voice services, including line rental services, mobile voice and data services, terrestrial dial-up and high speed broadband Internet services, and mobile telephone hardware. On August 3, 2010, People Telecommunications Pty Ltd, wholly owned subsidiary, acquired Bell Networks Voice & Data Pty Ltd (Bell Networks).
MAQ-AU	Macquarie Telecom Group Limited	Macquarie Telecom Group Limited (Macquarie) is an Australia-based company. The Company, along with its subsidiaries, is principally engaged in the provision of telecommunication and hosting services to corporate and government customers within Australia and Singapore. The Company operates in four segments: voice, data, hosting and mobiles. The voice segment is engaged in the provision voice telecommunications services. Its data segment relates to the provision of services utilising the Macquarie data network. The hosting segment relates to the provision of services utilising the Macquarie data hosting facility. The mobiles segment relates to the provision of mobile telecommunications services. The Company provides services to Australian corporate and government, and Singapore corporate customers. Its subsidiaries include Macquarie Telecom Pty Limited (MT) and Macquarie Hosting Pty Limited (MH). On July 31, 2009, it sold Macquarie Telecom Pte Limited to CITIC 1616 Holdings Limited.
MNF-AU	MY Net Fone Limited	My Net Fone Limited is an Australia-based provider of Internet protocol (IP)-based voice-over-Internet protocol (VoIP), data and video services, as well as enhanced service applications to residential and business enterprise customers. As of July 2010, the Company had over 83,000 customers across all parts of Australia, New Zealand and Asia. The Company's services include short message service (SMS) and audio conferencing with e-mail fax, virtual public branch exchange (PBX), naked asymmetrical digital subscriber line 2+ (ADSL2+), session initiation protocol (SIP) trunking, multi-line VoIP and mobile VoIP. The Company, together with its subsidiaries, primarily derives its revenue from fees and call charges from residential and enterprise customers, as well as from sales of customer premises equipment. Its subsidiaries include My Net Fone Australia Pty Limited and MNF Leasing Pty Limited.
TPM-AU	TPG Telecom Limited	TPG Telecom Limited is an Australia-based telecommunications company. The Company is a licensed telecommunications carrier engaged in the sale of retail and wholesale telecommunication products and services. Through its subsidiaries the Company offers dial/up, ADSL and SHDSL broadband services, mobile internet services, voice-over internet protocol telecommunication and website and domain name hosting. In addition the Company offers internet and data network services for enterprises. The services are offered under the TPG, Soul, Chariot and Pipe Networks brand names. As of July 31, 2010, its subsidiaries included TPG Holdings Pty Ltd, TPG Internet Pty Ltd, TPG Research Pty Ltd, TPG (NZ) Pty Ltd and Chariot Pty Ltd.

Source: ThomsonOne

11.5 Appendix E – Comparable Company Overview

The following table sets out details of the market capitalisation, annual revenues (on a trailing 12 month basis) and EBITDA (on a trailing 12 month basis) for the companies selected as being broadly comparable to ClubTelco.

Table 22 – Comparable Company Details

Company Name	Market Capitalisation 31 December 2010 \$m	Revenue (TTM) \$m	EBITDA (TTM) \$m
Bigair Group Limited	28.27	9.31	3.50
Eftel Limited	3.49	32.75	0.29
Engin Limited	8.88	21.38	0.60
Freshtel Holdings Limited	3.79	Neg	(1.51)
inet Limited	440.70	573.80	87.56
M2 Telecommunications Group Limited	354.97	439.98	36.15
Macquarie Telecom Group Limited	185.92	231.67	38.63
MY Net Fone Limited	13.66	12.98	1.26
TPG Telecom Limited	1,128.39	544.65	208.69

Neg - Negligible

Source: ThomsonOne

11.6 Appendix F – Qualifications and Experience



Domenic Quartullo

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Sydney NSW 2000

Telephone: +61 2 8263 4000
Facsimile: +61 2 8263 4111

Director Profile

Domenic Quartullo

Director

Corporate Advisory Services

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Domenic has over 25 years experience in chartered accounting and corporate advisory work, specialising in business, securities and intangible asset valuations, due diligence reviews, preparation of independent expert reports, financial investigations and business appraisals.

Domenic has worked for clients in the construction, gaming, health and pharmaceuticals, recruitment, resources, retail, telecommunication and IT services, media and advertising and wholesale distribution sectors.

He has been responsible for preparing numerous Independent Expert Reports for ASX listed companies, and has conducted valuations of businesses and securities for divestments, mergers and acquisitions, stamp duty, and capital gains tax purposes.

Domenic has also undertaken many financial due diligence reviews for proposed business acquisitions and ASX initial public offers and listings. He also has experience in preparing Business Information Memoranda for proposed sales of businesses, financing applications and other strategic planning purposes.

Domenic's experience also includes 8 years in undertaking forensic accounting investigations for litigation and mediation proceedings involving economic loss calculations, fraud investigations, insurance claims, royalty audits and other investigations.

Core Expertise

- Business, share and share option valuations
- Purchase price allocations (intangible asset valuations) and impairment reviews
- Due diligence reviews on acquisitions, divestments and ASX listings
- Independent expert reports for Corporations Act/ASX Listing Rule requirements
- Expert witness reports and evidence in litigation and mediation proceedings
- Capital raisings including debt and private equity placements

Domenic's Experience in Public Company Sector includes:

Independent expert in:

- merger of MyState Financial Credit Union of Tasmania Limited with Tasmanian Perpetual Trustees Limited
- compulsory acquisition of minorities by Mitsui & Co. Limited in Onslow Salt
- scheme of arrangement acquisition of CCI Holdings Limited by Bureau Veritas
- acquisition of Pengana Hedgefunds Limited by Magellan Financial Group Limited

Investigating accountant in ASX initial public offering and listing of:

- | | |
|----------------------------|----------------------------------|
| — Zingmobile Group Limited | — Everyday Mine Services Limited |
| — Healthzone Limited | — Probiotec Limited |
| — Allomak Limited | — Ambertech Limited |

Qualifications

- Bachelor of Arts; Bachelor of Laws – Macquarie University
- Member of the Institute of Chartered Accountants in Australia (ICAA)
- Member ICAA Business Valuations Special Interest Group
- Solicitor of the Supreme Court of New South Wales (Non-practicing)



Manda Trautwein

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Director Profile

Manda Trautwein

Director
Corporate Advisory Services

Manda heads up the corporate advisory services division at William Buck.

Before joining William Buck Manda successfully co-directed the specialist corporate advisory firm, VMC Global where she advised clients on a wide range of corporate transactions in a number of industries including; telecommunications, resources, healthcare, software and technology and marketing. She has significant experience in leading corporate advisory projects including overseeing both private and public company mergers and acquisitions, undertaking due diligence reviews and assisting companies with capital raisings and stock exchange listings. Manda has also undertaken a variety of business, intangible asset and financial instrument valuations and she has prepared a number of expert reports for court proceedings.

Prior to founding VMC Global Manda gained valuable experience at Farrar and Company, a Chartered Accounting firm, as a business services manager and at PricewaterhouseCoopers as an accountant in their middle market division.

Manda takes an active role in establishing strong relationships with her clients and chooses to focus on each business as a whole rather than a single transaction. This approach allows her to assist clients with all aspects of the transaction including pre-transaction planning and post-transaction support.

Manda's team includes a CA qualified manager and accountants at various stages of the CA program.

Core Expertise

- Business and share valuations
- Purchase price allocations and impairment reviews
- Acquisitions and divestments
- Due diligence reviews
- Independent expert reports for litigation matters and Corporations Act requirements
- Provision of expert evidence in court proceedings
- Capital raisings including debt and private equity placements
- Listing on the stock exchange

Qualifications

- Bachelor of Commerce – Macquarie University
- Member of the Institute of Chartered Accountants and their Business Valuations and Forensic Accounting Special Interest Groups
- Master of Applied Finance – Macquarie University
- Master of Applied Taxation – University of New South Wales
- Fulfilled ASIC's requirement of PS 146

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X99999999999

SHAREHOLDER VOTING FORM

I/We being a member(s) of Eftel Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

the Chairman
of the Meeting
(mark box)

☐

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at **10:00am on Wednesday, 29 June 2011, at Citigate Hotel, 707 Wellington St, Perth WA** and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting.

Please read the voting instructions overleaf before marking any boxes with an **X**

STEP 2

VOTING DIRECTIONS

Resolution 1

Approval for Change in Nature and Scale of Activities

For Against Abstain

☐
☐
☐

Resolution 2

Acquisition of ClubTelco Pty Ltd, placement and acquisition of relevant interest in shares

☐
☐
☐

Resolution 3

Issue of Shares on conversion of converting loan - Mr Scott Stavretis

☐
☐
☐


The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

EFT PRX101



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Monday, 27 June 2011**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE > www.investorcentre.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



by mail:

Eftel Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the General Meeting, please bring this form with you.
This will assist in registering your attendance.