MMA OFFSHORE

ASX Announcement

27 October 2017

Report from Pareto Securities dated 27 October 2017

The Listing Manager
ASX Ltd
Level 4, Stock Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

MMA OFFSHORE LIMITED (MMA or COMPANY) – REPORT FROM PARETO SECURITIES DATED 27 OCTOBER 2017

Further to our previous announcements, please find **enclosed** a copy of the Report from Pareto Securities dated 27 October 2017 which is referred to in the Company's Notice of 2017 Annual General Meeting.

Kind regards,
MMA OFFSHORE LIMITED

DYLAN ROBERTS
Company Secretary / General Manager Legal

Pareto
Securities Corporate Finance

Analysis of certain assertions made by Halom

27 October 2017

Background

- Halom has made a number of assertions in connection with resolutions that it has requisitioned as a shareholder of MMA Offshore Limited (“MMA” or the “Company”)
- Pareto Securities has been asked by MMA to consider certain of those assertions and report its findings
- Among other things, our findings show that MMA has performed on par with, or better than, its relevant peers on several indicative measures
- The peer group that we have used as a basis for our analysis has been defined as all OSV companies listed on a recognised stock exchange in Europe, the US or Singapore, with a market capitalisation over USD 100 million as of December 2014 (the “Peer Group”)

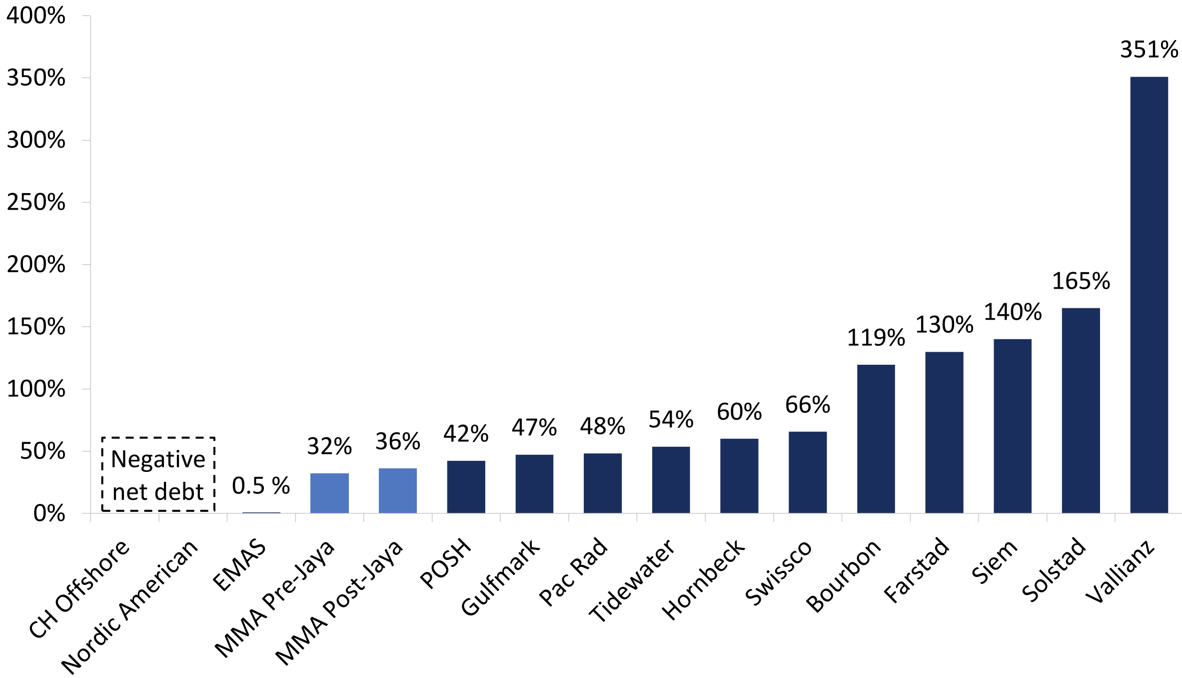
Executive summary

The offshore industry has been through one of the worst crises in history over the past three years and all companies in the Peer Group have been severely affected. Our analyses show that while MMA has been severely affected by the downturn, MMA's strategy has supported better performance compared to the average of its Peer Group:

- The Jaya Acquisition did not materially increase the Company's net gearing as the Board used a majority of equity to fund the transaction
- The "collapse" or decline in MMA's market capitalisation is in line with, or in some cases better than, the average decline in market capitalisation across the Peer Group
- Every company in the Peer Group reported an aggregated loss over the past two years
- 18x FY17 NIBD/EBITDA may not be an accurate representation of the Company's debt level as FY17 EBITDA represents "trough" earnings in a cyclical industry
- The sale of vessels to date were undertaken at a time when the value realised was arguably higher than current market values would deliver and the Company has been able to reduce the holding cost of otherwise idle vessels
- The oil price has doubled since the bottom in January 2016 and market consensus is that the offshore market is already in recovery
- In our view, the Company has demonstrated a clear and sensible strategic direction

Impact of Jaya acquisition debt on balance sheet

Gearing ratio analysis*



Jaya acquisition sources of funds	Amount (AUDm)	%
Equity	**317**	**56 %**
Debt	**253**	**44 %**

Halom's assertion:

- *The incurrence of substantial debt at the top of the cycle through the Jaya acquisition has materially contributed to MMA's financial challenges*

Our findings:

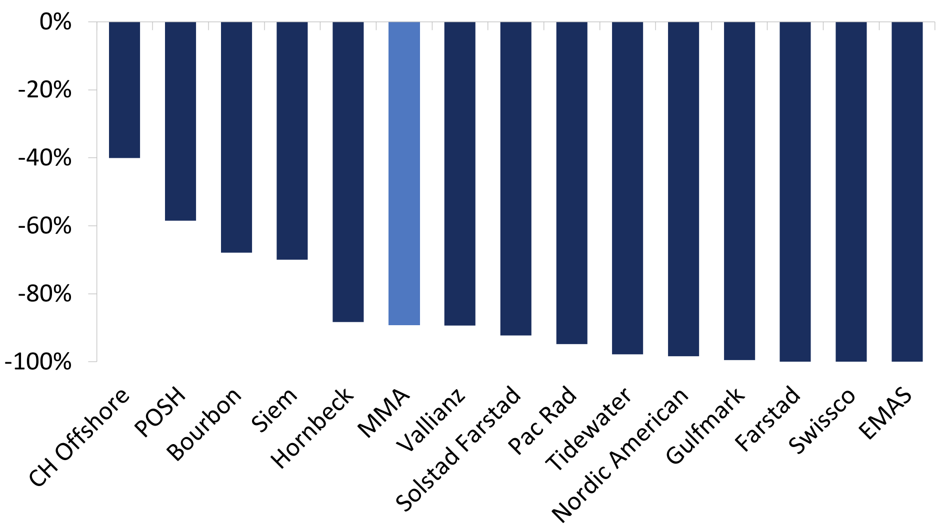
- When MMA acquired Jaya, the Board decided to use a majority of equity instead of debt to fund the acquisition
- MMA's debt to equity post the Jaya acquisition was still considerably healthier than the majority of the Peer Group (as at Jun'14)

** As of June 2014 (except MMA-Pre-Jaya, which is as of December 2013). Gearing ratio = Net debt/Shareholders' Equity.*

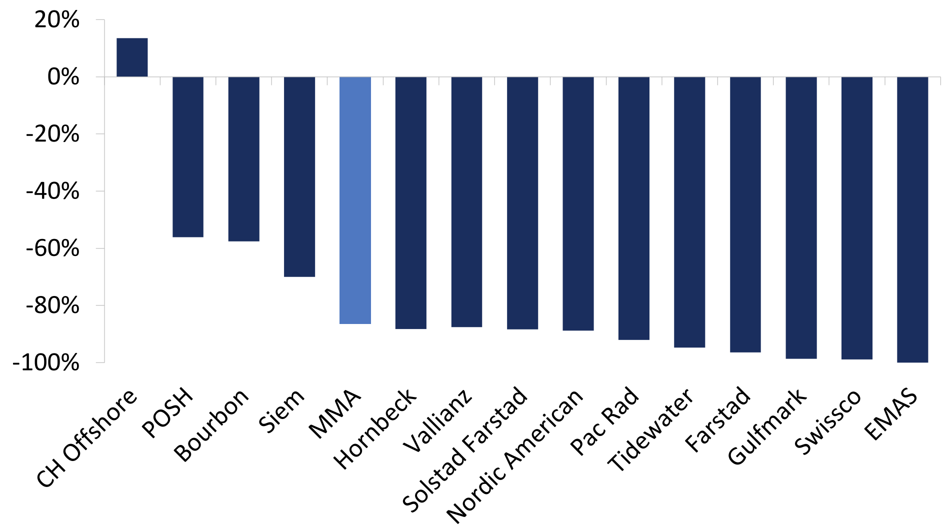
Source: Factset, MMA reported financials

Share price performance

Last 3 years share price return



Last 3 years total return (incl. dividends)



Halom's assertion:

- *The Board and Management have presided over a collapse in MMA's market capitalisation*

Our findings:

- The offshore downturn over the past three years, has led to an industry wide loss of market capitalisation for public companies, including the companies in the Peer Group
- MMA is one of the better performing stocks among its Peer Group, both from a share price return and a total return perspective

Source: Factset

Reported losses over the past two years

MMA operating cash flow for FY15 - FY17

(In AUDm)	FY16 30/6/2016	FY17 30/6/2017	FY16-17 Total
Loss for the year	**(144)**	**(378)**	**(522)**
Depreciation	89	48	137
Impairment	139	312	451
Various other non-cash items	(4)	28	23
Operating cash flow before working capital movement	**80**	**10**	**90**
Working capital movement	40	(16)	24
Operating cash flow	**120**	**(6)**	**114**

Halom's assertion:

- *Total reported losses of A$522 million over the past two financial years, with high prospects of further losses being incurred in FY18*

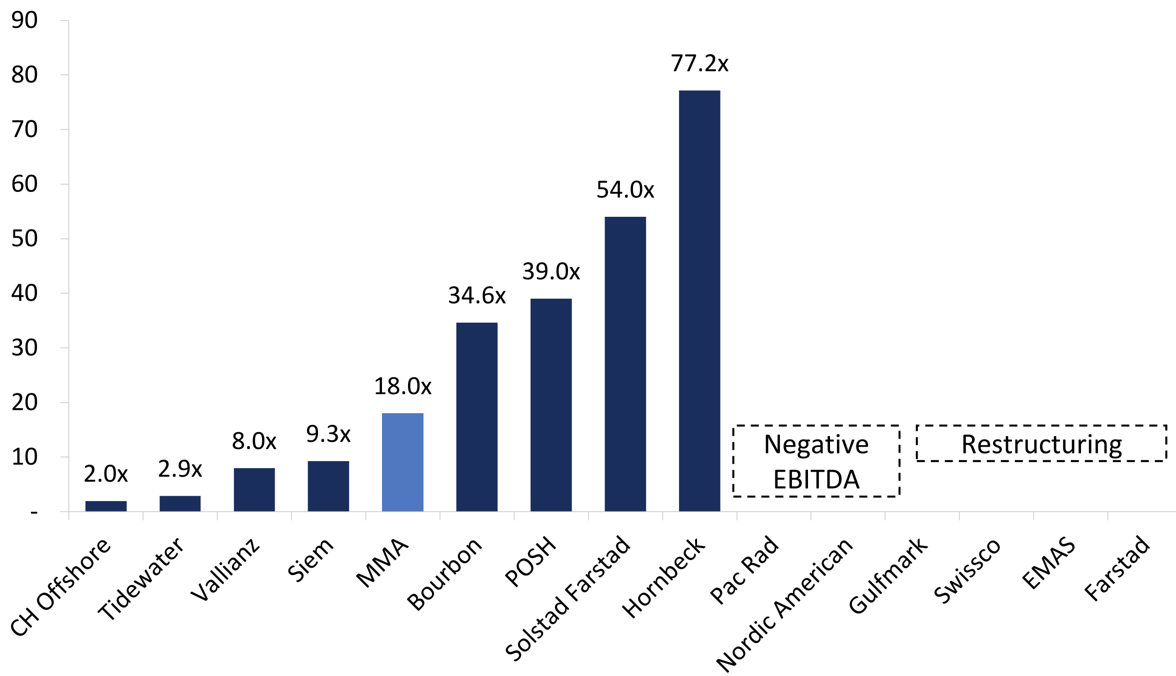
Our findings:

- Every company in the Peer Group reported net losses over the past two years
- MMA's reported losses are largely due to non-cash elements such as depreciation and asset impairment charges

Source: MMA reported financials, Factset

Debt levels

Debt over past 12 months' EBITDA ratio as at Jun'17



Halom's assertion:

- *Unsustainable debt levels at 18x FY17 EBITDA*

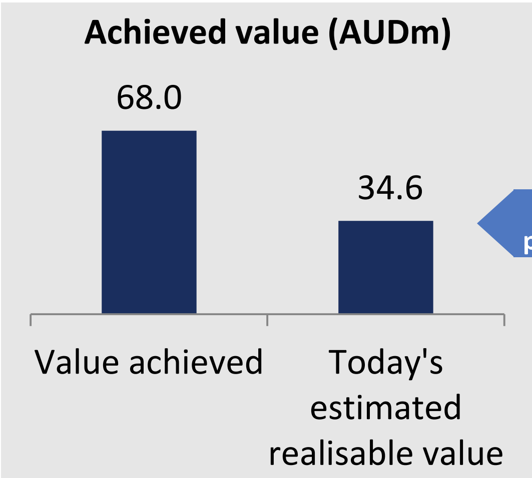
Our findings:

- The "18x FY17 EBITDA" ratio referred to is backward looking, which in our view paints an incomplete picture of the Company's level of indebtedness
- The EBITDA is "trough" EBITDA in a cyclical industry and the asset backing for the debt is substantial
- The Company's debt to EBITDA ratio is lower than the level for many of the companies in the Peer Group

Source: Factset, MMA reported financials

Sale of vessels and supply base

Vessel sale program implications

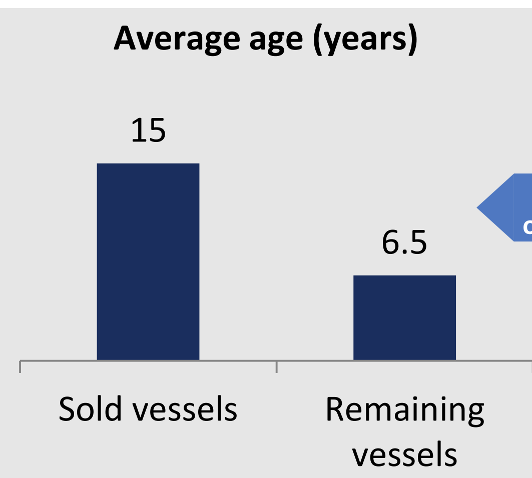


Value/cash preservation

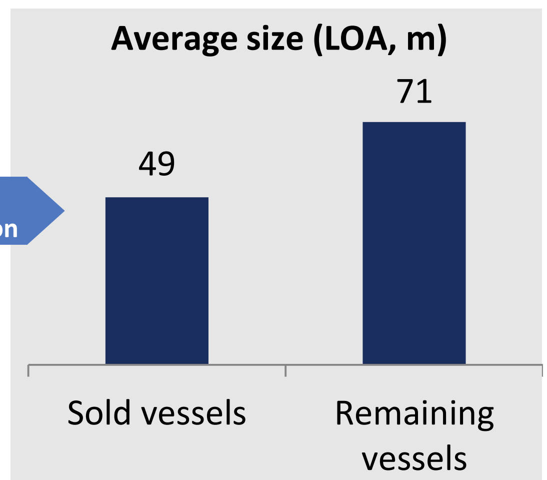
Annual cost savings

Layup cost per vessel:	No. of vessels:	Days per year:
500 AUD/day	**x 28** vessels	**x 365** days

= AUD 5,110,000 annual savings



Fleet optimisation



Halom's assertion:

- *'Fire sale' of vessels and sale of Dampier Supply Base and Slipway have eroded value and optionality for all stakeholders*

Our findings:

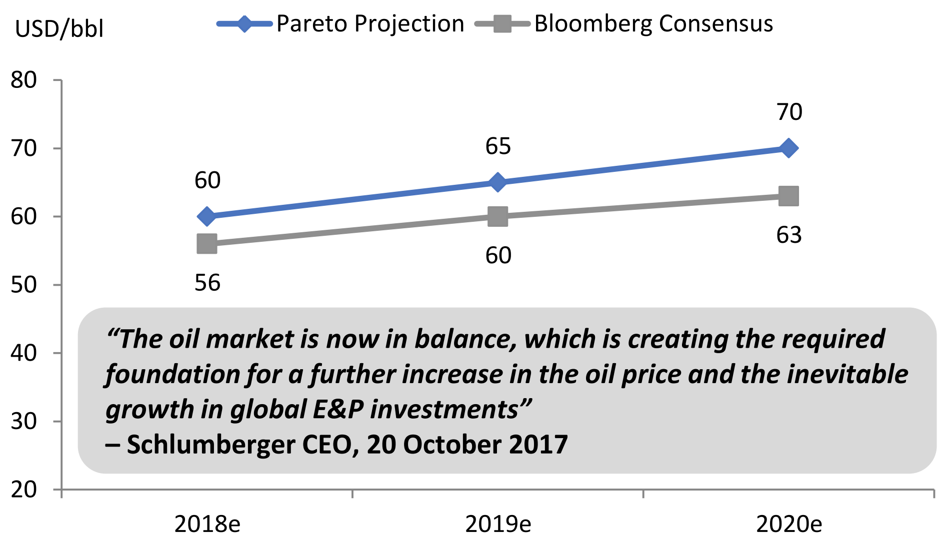
- MMA started the vessel sales program as early as in 2015, which allowed it to sell a number of vessels at values higher than what it would likely realise in the current vessel sales market
- In addition, the Company has saved opex and maintenance capex on these non-core vessels
- As for the strategic importance of the Dampier Supply Base, it is worth noting that none of the companies in the Peer Group own a supply base

Source: MMA, Pareto Securities Corporate Finance

State of the oil market

Oil price development

Pareto and Bloomberg consensus



Halom's assertion:

- *General consensus is that oil price recovery is not on the horizon yet*

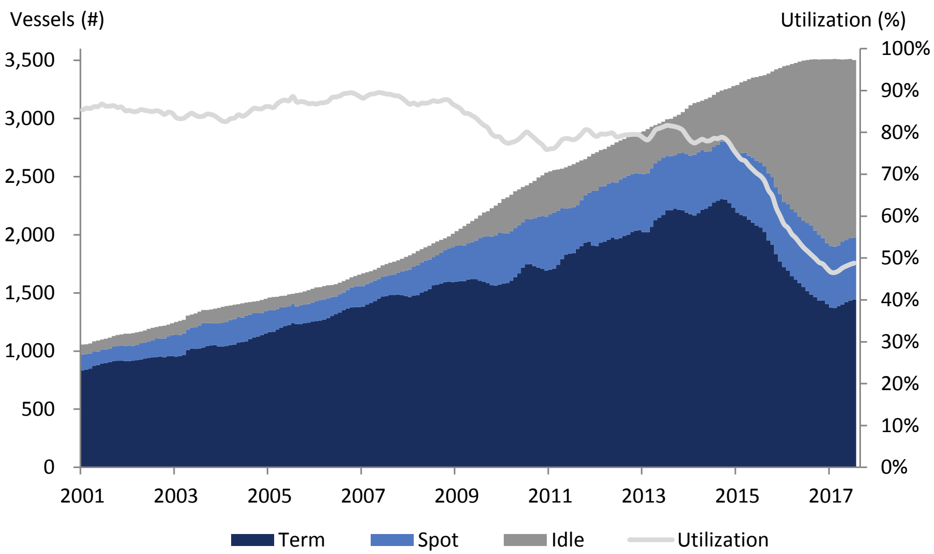
Our findings:

- The oil price has more than doubled since January 2016 and has stabilised well above USD 50/bbl
- The reduction in global oil inventories in Q3 has led to a strengthened consensus that the market is in balance and that prices will continue to improve

Source: Bloomberg, SeekingAlpha, Pareto Securities Equity Research

State of the OSV market

Global OSV utilisation



Halom's assertion:

- *The OSV market is not expected to improve for several years*

Our findings:

- The OSV market has already begun to recover, as demand has improved 5% since the bottom in January
- Market consensus points to a continued recovery

Opinions on the OSV market

Clarksons Platou

World's largest offshore broker

Aug 2017: "After nearly three lean years, we are feeling the turn in the offshore oil services market"

Sep 2017: "The market consensus is that we have reached the bottom of the cycle"

Fearnley Offshore

Globally leading offshore broker

Westwood Global Energy Group

Globally leading energy advisor

Aug 2017: "We have seen a sustained uptick in offshore drilling – and surprising to some – that uptick has been led by southeast Asia"

Jun 2017: "The offshore market is poised for growth in the next 4 years"

RYSTAD ENERGY

Globally leading energy advisor

Pareto Securities Equity Research

Synnøve Gjønnes
Head of OSV Research

Aug 2017: "When adjusting for vessels that are not competitive, such as vessels older than 25y, adjusted utilization stands at 68%"

Source: Bloomberg, IHS Petrodata, Pareto Securities Equity Research, OSJ Online, Rystad, Clarksons Platou, Westwood Global Energy Group

Strategic direction

Halom's assertion:

- *Lack of strategic direction – MMA has no strategic vision or clear plan to derive sustainable returns through present cycle*

Our findings:

- The Company has pursued a strategy of shrinking its operational footprint to mitigate unnecessary cash burn in response to challenging market conditions, including the sale of certain assets and downsizing of ship yard facilities
- This has allowed a debt reduction of ~30% since year end 2014, which has facilitated continued bank support
- It has segregated its fleet into core and non-core – allowing orderly disposal of non-core vessels and preservation of the Australian capable fleet
- The remaining fleet is comparatively young (the age of its core fleet is approximately 5 years) and MMA is well placed in a market recovery
- MMA has managed to gain some market share in the Australian market, despite decreased project activity and related vessel demand
- The Company has executed a successful partnership strategy, focusing on the Middle East and the subsea space, which has had a positive impact on vessel utilisation
- MMA has managed to reduce its cost base, while at the same time preserving operational competency, which will be key to achieving profitable growth as the market recovery continues

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