Quarterly Update

June 2017

Market Update

United States (US) renewable and solar market update

The US renewable energy industry continues to grow at a rapid pace. In March 2017, for the first time, solar and wind accounted for 10% of total US electricity generation. In Q1 2017, the US market installed 2 Gigawatts (**GW**) of solar photovoltaic (**PV**); an installation rate consistent with Q1 of the record-breaking 2016 calendar year. According to the Solar Energy Industries Association (**SEIA**), solar PV installations represented 30% of all new capacity additions in the quarter; the highest share of any form of renewable generation. More than half of these capacity additions were from the utility-scale segment, which has now added more than 1 GW of capacity for six consecutive quarters.

Total installed solar PV capacity in the US reached 44.7 GW at the end of Q1 2017, generating enough energy to power 8.7 million households and displace 55 million metric tons of CO2 annually, or the equivalent of planting over 1.4 billion trees. According to Greentech Media Research (**GTM**), the US is forecast to add 12.6 GW of new solar PV installations in 2017. Total installed US solar PV capacity is expected to nearly triple over the next five years with GTM predicting that, by 2022, over 17 GW of capacity will be installed annually. The installation cost of utility-scale solar PV dropped below US$1 per watt for the first time in Q1 2017 according to estimates by GTM and SEIA, further enhancing solar PV's competitiveness.

President Trump's announcement to withdraw the US from the Paris Climate Agreement in June made news headlines globally. The announcement is not expected to stop continued growth in renewables and several US states and cities, led by California and New York, have reaffirmed commitments to material carbon reduction and energy efficiency plans.

Highlights

- New Energy Solar (the Business) announced its initial distribution of 3.2 cents per stapled security (to be paid on 15 August 2017), and the establishment of a distribution reinvestment plan
- In May, the Business completed its acquisition of a majority interest in the NC-47 asset in North Carolina which is now operating and selling power to Duke Energy Progress

NC-47: Site dedication

Despite the withdrawal from the Paris Climate Agreement, Trump's Republican party maintains their energy policy of supporting "the cost-effective development of renewable energy sources – wind, solar, biomass, biofuel, geothermal, and tidal energy – by private capital", indicating that corporations will have a large role to play in procuring and funding renewable energy. As at June 2017, US companies have signed a cumulative 11.2 GW in clean energy power purchase agreements (**PPA**), with leading corporations including Google, Apple, Walmart and Procter and Gamble voluntarily committing to procure 100% of their electricity requirements from renewable sources as part of the RE100 initiative.

In the US, state governments have substantial control over directing energy policy, with most strongly in favour of the transition to a clean energy future. Several states have recently proposed to accelerate their clean energy targets under Renewable Portfolio Standards (**RPS**) in order to reduce energy costs, create employment and shift to a cleaner energy future.

Recent state-based initiatives include; Michigan considering a bill to increase its RPS to 50% by 2035; California passing a bill to adopt a 100% clean energy standard by 2045; and Maryland increasing its RPS to 25% whilst also reducing the timeline to meet the RPS to 2020.

Australian renewable and solar market update

According to Bloomberg New Energy Finance (**BNEF**), approximately A$1 billion was invested in Australian solar PV projects in Q2 2017, a level consistent with the preceding quarter. During H1 2017, 375 MW of solar PV projects were sold in Australia, which compares to 229 MW over the entire 2016 calendar year. Data from Sustainable Research Analytics (**SERA**) indicates that as at the end of Q2 2017, there was 317 MW of operational utility-scale solar PV in Australia, with a further 986 MW currently under construction.

The economics of utility-scale solar PV continues to improve at a rapid rate with BNEF estimating that the levelised cost of energy (**LCOE**) for utility-scale solar PV in Australia fell by 16% during the six-month period from 1 January to 30 June 2017. These strengthening economics mean the technology is well positioned to play a major role in Australia's transition to a clean energy future.

During the quarter, the Australian Renewable Energy Agency (**ARENA**) released an annual update of their investment plan which placed a heavier emphasis on the need to develop innovative technologies to transform the current grid to accommodate distributed generation and higher penetration of renewables. ARENA claims that "with better integrated distributed energy, individual energy users may be using distributed renewable energy and other technologies (such as storage, energy efficiency and demand management) to meet up to half of Australia's electricity needs by 2050, reducing spend on grid infrastructure by as much as A$16 billion".

To help fund the development of clean energy technologies, ARENA and the Clean Energy Finance Corporation (**CEFC**) have partnered on a A$200 million 'Clean Energy Innovation Fund' to provide debt and/or equity finance for innovative clean energy projects and energy efficiency technologies.

In June, Australia's Chief Scientist Alan Finkel released his highly-anticipated review of the Australian energy market (the "**Finkel Review**") to the Council of Australian Governments (**COAG**). The Finkel Review made 50 recommendations to COAG, covering increased security, future reliability, power affordability, gas supply and energy market governance.

The Finkel Review recommended the adoption of a Clean Energy Target (**CET**) and a discontinuation of Australia's Renewable Energy Target (**RET**) beyond 2020. The CET is proposed to extend to gas and other sources of energy such as coal, provided it is combined with carbon capture and storage technology. Generators that produce power below a baseline level of CO2 emissions per megawatt-hour (**MWh**) would create a certificate proportionate to the amount by which their emissions are below the baseline. Electricity retailers would be required buy certificates from qualifying generators to demonstrate procurement of a certain amount of low emissions electricity, with the price of certificates determined by supply and demand. The CET is an incentive for low emissions rather than a penalty for high emissions, so system reliability and security can continue to be supported by existing thermal generators during the transition to low or zero-emission fuels.

The last five coal generators to cease operations in Australia provided an average of five months' notice before closing which has been cited as one of the reasons (along with tight gas supply) for increased electricity price volatility, as there was insufficient time for new generation to be built to replace this capacity. In response to this, the Finkel Review recommended a three-year non-binding notice period for closures of generators to signal investment opportunities and reduce the impact of sudden loss of supply from the market, which can cause price volatility.

The Finkel Review also recommended that all new intermittent generators be required to install storage and backup, at a level to be determined by the Australian Energy Market Operator (**AEMO**) and Australian Energy Market Commission (**AEMC**). Storage would help manage the intermittency in dispatch of renewable

energy generators and facilitate reliability of the grid as renewable penetration increases.

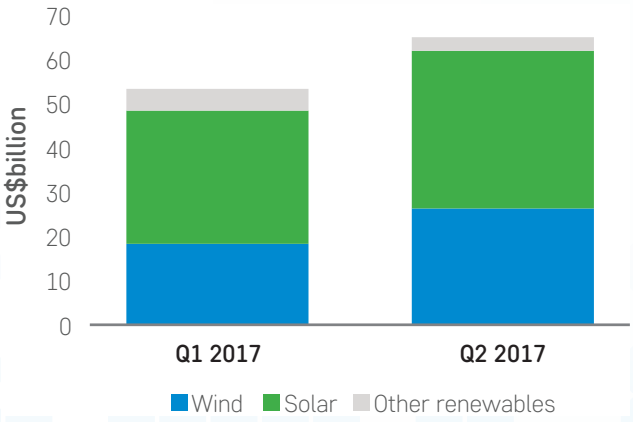
Following the delivery of the Finkel Review to COAG Leaders on 9 June 2017, the various energy ministers have agreed on a timeline to implement 49 of the 50 recommendations. An Energy Security Board (**ESB**) consisting of representatives from COAG, AEMC, AEMO and the Australian Energy Regulator (**AER**) has been established to provide whole-of-system oversight for energy security and reliability, and it is expected that this ESB will have a key role in co-ordinating implementation of the Finkel Review recommendations.

NES is encouraged by the positive developments and increasing pace of expansion in the Australian renewables sector. Please see the Transaction Pipeline section for detailed comment on NES' activity in the Australian market.

Global renewable and solar market update

According to BNEF, US$64.8 billion was invested in clean energy around the world during Q2 2017, representing a 21% increase on global clean energy investment in Q1. Investment in solar comprised US$35.6 billion of this total; a 19% increase in investment from Q2 2016. The Asia Pacific (**APAC**) region accounted for the largest share, with 58% of investment, buoyed by robust solar markets in China and India.

Global investment in renewable energy



Source: BNEF, July 2017.

GTM upgraded their global solar installations forecast to 85 GW in 2017, compared to 78 GW of solar installations in 2016. China is expected to strengthen its position as the biggest solar market, with around 30 GW of solar PV capacity additions in 2017, whilst the US and India are also expected to contribute strongly to global growth. A rise in installations is also expected in Mexico, France, Australia and several Middle Eastern markets, while Germany and the UK markets are expected to slow in 2017.

In China, investment in solar remains robust despite uncertainty around the quantum of Feed-in-tariff (**FIT**) cuts by the National Energy Administration (**NEA**) in 2017. BNEF reports that investment in solar grew almost 4% H1 2017 compared to H1 2016. The NEA predicts a further US$361 billion of investment in renewables-based power generation by 2020, which includes US$144 billion for solar, US$100 billion for wind and US$70 billion for hydropower. These investments are expected to create over 13 million jobs in the country to 2020.

Annual solar PV installations in India have grown by an average of 72% for the last 3 years, with cumulative installed solar capacity expected to reach 18.7 GW by the end of 2017, representing about 5% of global solar capacity. GTM expects India to become the third largest solar market globally, overtaking Japan with 8.8 GW of solar installed in 2017.

Solar generation costs continued to decline in early 2017 due to lower capital expenditures and improvements in equipment efficiency. According to BNEF, the LCOE of solar PV declined 18% over H1 2017 globally.

Following 2.1 GW of solar capacity additions in 2016, the Latin American region is expected to add an estimated 4.5 GW in 2017. Argentina, Brazil, Chile and Mexico are expected to account for around 70% of this new installed capacity.

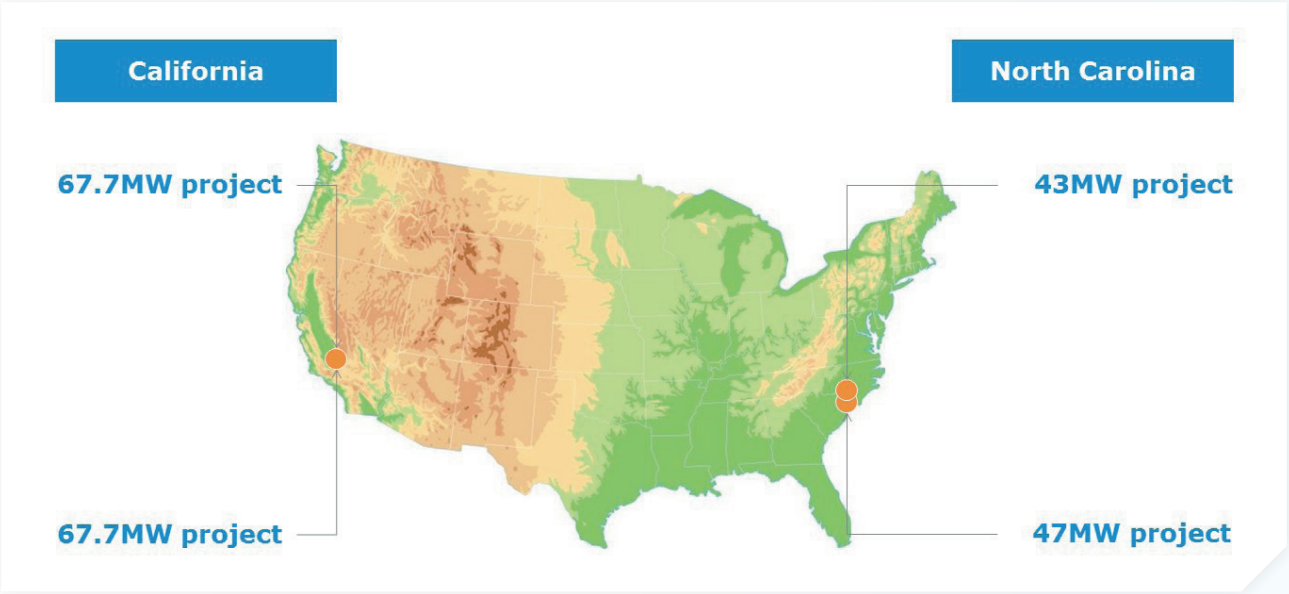
Business Update

After the commissioning of the NC-47 project in May 2017, NES' four majority owned solar plants in California and North Carolina are fully operational, representing a total capacity of 225 MWDC. During the quarter, the NES portfolio produced approximately 137,000 MWh of electricity (representing enough production to power over 60,000 homes for a quarter).

This electricity production displaces the equivalent of 78,000 tonnes of CO2 emissions – or 18,000 cars being removed from the road for a year.

Business Update (continued)

Location of US assets



Portfolio Update

NC-31

NC-31: Site overview

After commissioning of the NC-31 project in the March quarter, this quarter saw receipt of initial PPA revenues from the project's PPA offtaker Duke Energy Progress (**Duke**).

Substantial progress was also made in post-commissioning and optimisation activities at the NC-31 asset site. Some outstanding commissioning items impacted electricity production during the quarter but increased plant availability is expected now that nearly all post-commissioning activities have been completed.

Stanford SGS and TID SGS

Stanford SGS & TID SGS: Overview of both sites

After one of the wettest winters on record, California is now in the higher production periods of spring and summer.

Production availability for both projects during the quarter were higher, reflecting the completion of nearly all post-commissioning activities. In line with higher solar irradiance and plant availability, electricity production and revenues for the Stanford SGS and TID SGS increased during the quarter and are expected to remain strong over the coming months.

NC-47

NC-47: Solar power station is now operational

On 24 May 2017, the Business achieved another major milestone with the completion of its acquisition of a majority interest in the 47.6 MWDC utility-scale solar project, NC-47, when the asset reached its Commercial Operations Date. The project is in Robeson County, North Carolina and was developed by VivoPower USA LLC (**Vivo**). Vivo will retain a minority interest and will be involved in the ongoing management of the asset.

For further details, see the Business announcement dated 24 May 2017 on the NES website.

To mark the completion of NC-47, a site dedication and ribbon cutting ceremony was held on 9 June 2017. Over 100 people attended the ceremony, including dignitaries from the local county, representatives from NES, project developer VivoPower, Engineering, Procurement and Construction (**EPC**) provider DEPCOM, panel supplier Canadian Solar, power purchaser Duke Energy Progress, and site lessors, the Chavis and Floyd families.

Also in attendance were US Bancorp and Starbucks Corporation who participated in the financing of NC-47. NC-47 has already provided a positive economic and social impact to the local community, with the local council and The University of North Carolina noting that the project has injected US$22 million into Robeson County's local economy.

For further information see the media release dated 26 June 2017.

Transaction Pipeline

During the quarter, the Acquisition Team continued to evaluate several new investment opportunities, with a principal focus on assets across the US and Australia.

Australia

In Australia, NES has participated in a number of sale processes over the last quarter. Whilst some of these projects have had attractive features, the Business also continues to pursue opportunities in the larger and more liquid US market, where contract terms and potential returns generally exceed those available in the Australian market.

Project sales in Australia have tended to be "one-off" competitive processes attracting a large and diverse bidder field, whilst in the US NES is engaged in bilateral discussions with selected developers who can offer a pipeline of acquisition opportunities. Combined with the small number of opportunities, large bidder fields tend to inflate project prices as buyers compete to deploy capital.

Many of the projects that have come to market have been offered with a high level of leverage and a relatively short debt tenor (5 – 7 years). This creates a refinancing risk at that point where, if interest rates have increased, equity cashflows will be impacted. In the US, the solar debt finance market is substantially more advanced and lenders routinely offer terms which match the length of PPAs, thereby reducing or eliminating refinancing risk.

From a regulatory perspective, uncertainty around the Renewable Energy Target means most PPAs in the Australian market expire in 2030, whereas there are still opportunities to acquire US assets with longer PPA terms. To date, most utility scale solar PPAs in Australia have been written by energy retailers, with the current market structure not conducive to large energy buyers entering the PPA market. With retailer demand for PPAs reducing, many developers are electing to develop and sell "merchant" plants, which do not have a PPA. Given NES' mandate of providing long-term contracted cashflows and stable yield, NES has passed on several of these merchant opportunities.

With Australian energy supply, regulation and pricing a key topic of discussion in the market, the Business continues to participate in opportunities, and remains positive on the growth of the solar market in Australia. In particular, NES expects that current high electricity prices will motivate large corporates to enter into PPAs and believes that implementation of the Finkel Review recommendations will result in a market with more opportunities to contract long-term offtake with a more diverse range of customers.

US

During the quarter, NES has evaluated acquisition opportunities in Georgia, Maryland, Oregon, North Carolina, and South Carolina. Additionally, NES has continued discussions with potential development partners who have a successful model for identifying and developing attractive opportunities in the utility-scale and commercial and industrial market segments. NES is continuing to

diligence a number of these potential assets and looks forward to updating investors on its acquisition pipeline in the coming months.

Appointment of CEO

In May 2017, NES appointed John Martin as CEO. John is a leading expert in the infrastructure and energy sectors, having held senior roles in banking and corporate advisory in the infrastructure and utilities sectors over the past two decades. John succeeds Tom Kline who, having successfully helped launch NES, has relocated to the United States to oversee operations and continued investment in North American solar power projects.

For further details, see the Business announcement dated 26 May 2017.

Initial Distribution and Distribution Reinvestment Plan (DRP)

On 28 June, NES announced its initial distribution of $0.032 per stapled security for the period ended 30 June 2017, which will be paid on 15 August 2017. NES expects to pay distributions semi-annually, with the next distribution scheduled for the period ended 31 December 2017.

In conjunction with its initial distribution, NES has also established a DRP that enables security holders to increase their holding in NES by reinvesting part of or all of their NES distributions in additional NES stapled securities, free of brokerage, commission and other costs.

The NES Directors determined the reinvestment price for the initial distribution to be $1.58 per stapled security, representing a discount of approximately 2.5% to the last capital raising price of $1.62.

For further details on NES' initial distribution and the DRP, see the announcement dated 28 June 2017 and the DRP booklet on the NES website.

Weekly news updates

New Energy Solar recognises that there is a growing interest in solar energy and the global transition to clean energy. However, with the increased attention on the renewable energy sector sifting through news to find credible and insightful articles can be challenging. To help readers stay informed on emerging themes in global renewable energy markets New Energy Solar is planning to commence the release of a weekly summary of key news affecting the renewable energy sector. If you, or someone you know, would like to receive this free weekly summary you can register your interest at http://www.newenergysolar.com.au/sign-up. Dissemination of this weekly summary is scheduled to commence in August.

About the Business

New Energy Solar is a sustainable investment business initially focused on investing in large-scale solar farms.

The Business's objective is to help investors generate positive social impact alongside attractive financial returns through the combination of distributions from operating solar assets and growth through to new acquisitions and developments in the solar and renewables sectors.

The Business will focus on acquiring and maintaining a diversified portfolio of solar and renewable energy assets across the globe, with an initial focus on solar assets with contracted cash flows in the US, Australia, and select Asian Markets.

The Business is an unlisted stapled entity consisting of New Energy Solar Fund (**Trust**) and New Energy Solar Limited (**Company**) (together **New Energy Solar** or the **Business**).

IMPORTANT NOTICE

This Quarterly Update (**Update**) has been prepared by the Investment Manager (**New Energy Solar Manager Pty Limited**) of New Energy Solar. An investment in the Business is subject to various risks, many of which are beyond the control of the Investment Manager and the Responsible Entity of the Fund. The past performance of the Business is not a guarantee of the future performance of the Business.

This Update contains statements, opinions, projections, forecasts and other material (**forward looking statements**), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Investment Manager and the Business, their officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant PDS or offer document before making any decisions to purchase the product.

John Martin
CEO of New Energy Solar Manager Pty Limited

- CEO, New Energy Solar.
- Two decades of experience in corporate advisory and investment banking with a focus on infrastructure, energy and utility sectors.
- Advised on more than $10 billion of infrastructure and utility M&A and financing transactions.

Board of the Business

Alex MacLachlan
Chairman of the Responsible Entity and the Company

- CEO, Walsh & Company, the funds management division of Dixon Advisory.
- Previously Head of Energy, Australasia, for UBS AG.
- Advised many of the world's leading energy companies, including BHP Billiton, Woodside, Oil Search, and Shell.

Tom Kline
Director of the Company

- Executive Director – North America, New Energy Solar.
- Previously a member of the Power, Utilities and Infrastructure team at UBS AG where he advised some of Australia's largest energy generators such as EnergyAustralia.
- Advised Australian energy and utility companies on the proposed introduction of the Carbon Pollution Reduction Scheme.

Adam Chandler
Director of the Company

- Chief Operating Officer, Walsh & Company.
- More than 15 years' experience in financial markets across funds management and corporate advisory.
- Previously a portfolio manager and investment banker at UBS in Sydney and London.

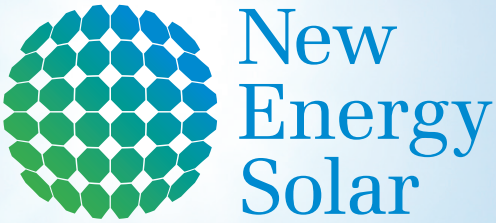
Tristan O'Connell
Director of the Responsible Entity

- Chief Financial Officer, Dixon Advisory.
- 20 years' experience in corporate, financial and management roles.
- Previously financial controller of Tullett Prebon in Australia, one of the world's leading inter-dealer broker firms.

Warwick Keneally
Director of the Responsible Entity

- Head of Finance, Walsh & Company.
- Previously worked at a number of chartered accountancy firms including KPMG in Australia and London.
- Expertise in complex insolvency and restructuring engagements across Europe, UK and Australia.

For additional information see: **http://www.newenergysolar.com.au/**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