INTRODUCTION:

This paper has been prepared for the benefit of all members at the request of **Life Member**, Mr. Peter Davis, Membership Number 15029 after a meeting held with the CEO on the 29/10/2021 to discuss;

- Total hotel costs to completion,
- Hotel valuation on an "as if complete basis",
- Future cash flow projection for the Club and the Hotel business post completion of the project,
- Debt funding strategy and CTC's ability to repay debt and
- Maximum debt levels CTC can incur based on the current approval of members.

BACKGROUND

In 2015 the Members of City Tattersalls voted in favor of the redevelopment of the Club. Members received two documents, one being a resolution paper noting all the points requiring approval and the other being an explanatory paper explaining the resolution in detail.

Point 1.3 at page 15 of the Resolution's Paper, details how the members authorised the Board of that time to do any of the following things for the purpose of constructing, improving, repairing, renovating, rebuilding, and or fitting out the premises of the Club in accordance with the DMA, paying the development costs of the Club incurred in respect of the project and or reducing the Clubs' debt;

a) To borrow and or raise funds through the Club's interest in the hotel by ANY means, which in the committee's opinion are necessary or desirable in connection with the project, including without limitation

i) Sell 50% of the Hotel
ii) Grant long term management rights in respect of all or part of the hotel
iii) By entering a joint venture arrangement in respect of the ownership or management of the hotel

Further on the 31 July 2020, through a special meeting, the members of City Tattersalls provided further consent for the Board of the Club to sell up 100% of the hotel interest.

On the 22 of November 2021, members will consider and if thought fit approve another resolution that aims to confirm the approval of the 31/07/2020 and further clarifies additional approval to sell the Hotel and Air Stratum – which includes the Hotel and airspace rights surrounding the buildings located at 194-204 as noted in the plans.

KEY POINTS TO CONSIDER

Since 2015 the development has increased in costs and as at today the value of constructing the Club and Hotel exceeds the $104M the Club is entitled to receive under the Development Management Agreement. The cost to build the Hotel is currently estimated to be circa $77M with a valuation on completion of $54.5M, delivering a negative equity result of some $22M in 2026.

COSTS	
Hotel to warm shell	$ 52,719,682
Professional fees	$ 5,711,886
Sttautory Fees	$ 1,139,589
Hotel FF&E	$ 5,650,000
Contingency	$ 6,522,116
Funding Costs	$ 5,524,232
Total Projected Costs	**$77,267,505**
Projected Value of Hotel	$ 54,500,000
Net Project Result	-$22,767,505

Hotel valuation work was completed by Preston Rowe Paterson on December 2020 and validated by the Valuation's team at KPMG.

The total cost of delivering the Club component of the development (total cost to complete) is as follows:

COSTS	
Club to Cold Shell	$ 55,434,665
Professional fees	$ 7,358,141
Sttautory Fees	$ 1,348,644
Club Fitout & Incentives	$ 46,325,975
Fitout Interest Costs	$ 4,800,000
Funding Costs	$ 8,700,000
Total Projected Costs	**$123,967,425**

Total Costs Hotel	$ 77,267,505
Total Costs Club	$123,967,425
Value of Deal to CTC	$ 86,000,000
Net deficit	-$115,234,930

Of the $104M CTC is to receive from the Developer towards the realisation of the Project, the Club has used $24M towards retiring the debt with ANZ in 2018 which was circa $20M, to ensure the Club was not in breach of its obligation under the DMA, whilst the other $4M is part of the trading account for The Castlereagh Club, which today provides most of the amenities contemplated on the original interim Club, albeit this being located elsewhere and not on Pitt Street.

DEBT LEVEL AND SERVICING:

In 2019-20, the Club commissioned Russell Corporate Advisory to produce a 10-year cash flow model that would amongst other things look at the Club's ability to generate cash through internally and externally run operations and rent received to service debt. In short, not even the most optimistic performance of both business (the Club and the hotel) could service a $115M debt.

The maximum peak debt level the Club and the hotel business cold have endure was $40M.

SECURITIES:

Members would remember that part of the approvals granted in 2015 was for the Club to grant the Developer a mortgage over the property and a General Security over all of the Club's current and Future Assets. Further, the Development Management Agreement also contemplates the Club having to also grant securities in favor of the construction financier. Currently the first ranking mortgage is in favor of the Developer, but this changes in priority when the funds are required in favor of the construction financier.

Having such mortgages in favor of the developer and the construction financier make it impossible for a financial institution to provide funding to the extent of $115M on third ranking priority. Especially when the Construction Financier is not likely to release the securities until the titles are created.

CONCLUSION

Selling the Hotel component of the development for the values noted in this paper enable the Club to:

1. Meet its obligations under the DMA and not be in breach,
2. Stay within the maximum levels of debt approved by members in 2015 and not be in breach of such limits,
3. De-risks the Club from owing an asset class that due to the COVID-19 pandemic is grossly underperforming and will take some time to recover,
4. Allows the Club to assess other opportunities for property acquisition and Re-development with significantly less risk and
5. Allows the Club to negotiate a total development cost cap with the developer to ensure the Club is not at risk for any ongoing construction and related increases.

M VELOZ - CEO