ARIADNE

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2018 REVIEW

The Directors present the Annual Financial Report of Ariadne Australia Ltd ("Ariadne") for the period ended 30 June 2018.

For the 2018 financial year Ariadne reported a net profit after tax attributable to members of $15.3 million (2017: $79.0 million, which included a $67.1 million gain on the sale of Secure Parking).

In addition, a negative contribution (net of deferred tax) attributable to members of $5.1 million (2017: $12.5 million positive contribution) was reported through the Statement of Comprehensive Income (largely arising from mark-to-market losses on the Group's strategic portfolio), reducing Total Comprehensive Income attributable to members to $10.2 million (2017: $91.5 million).

Net tangible assets per share increased by 1.9% during the period from 86.58 cents per share to 88.25 cents per share at balance date, notwithstanding the payment of a 1.50 cent special dividend and two 1.00 cent ordinary dividends during the period.

Total comprehensive earnings per share were 5.10 cents compared to 45.50 cents for the previous year.

The reduced net operating cash flow during the period of $0.6 million (2017: $9.5 million) is predominantly due to lower distributions received from associates following the sale of the Group's 50% interest in Secure Parking in January 2017.

A number of factors contributed to the result:

40 Tank Street, Brisbane ("Tank Street")

Tank Street was purchased in May 2017 by Ariadne, in joint venture with an entity associated with Ariadne's Deputy Chairman, Kevin Seymour.

In May 2018, as part of a restructure of interests in the property, Ariadne surrendered its five level car park lease interest at Tank Street for a net gain of $2.0 million and a new lease with a third party operator was put in place. The restructure enhanced the overall value of the Tank Street building.

On 19 July 2018, Ariadne announced that the Tank Street joint venture had entered into an agreement with entities associated with Charter Hall Limited to sell Tank Street for $93.0 million. Settlement of the transaction occurred on 20 August 2018.

The joint venture's carrying value of Tank Street was $60.7 million and in accordance with accounting standards, the joint venture revalued Tank Street to the contracted sale price on balance date.

Ariadne's 50% share of the uplift, net of completion costs, is $14.8 million and has been included in Ariadne's FY18 result – an excellent return (c 80% IRR) on invested capital.

<u>Hillgrove Resources Ltd ("Hillgrove")</u>
During FY18, Ariadne increased its shareholding in Hillgrove to 26%.

Hillgrove has, as a result, become an associate of Ariadne and Ariadne now records its proportionate share of Hillgrove's results for the relevant period.

With the completion of the cutback of the Giant Pit at its Kanmantoo operations, Hillgrove anticipates a steady improvement in liquidity with lower waste removal costs and the generation of positive cash flows, enabling the reduction in creditors in the short term.
Hillgrove has announced three potential opportunities which have the potential to generate value above the current "life of mine" model –

- Underground prospects below the current open pit
- Regional growth prospects at Kanappa and Mt Rhine
- Pumped Hydro Energy storage at Kanmantoo

If none of these opportunities come to fruition, Hillgrove will complete its mining operations at Kanmantoo and, using its significant franking credits, return cash to shareholders through fully-franked dividends.

<u>Ardent Leisure Group ("Ardent")</u>
During the financial year Ariadne, in conjunction with associated parties, added to its security holding in Ardent increasing the combined relevant interest to 11.4%.

At balance date, Ariadne held 21.9 million securities in Ardent with a market value at balance date of $43.3 million. The increase in mark-to-market value during the first half of the financial year of $1.5 million is reflected (net of tax) through Other Comprehensive Income in the accounts.

Following a highly-publicised campaign to secure board representation at Ardent, our nominee Brad Richmond and I were appointed to the Ardent board on 3 September 2017.

Subsequently, on 29 September, I was appointed Chairman of Ardent.

Much has been achieved at Ardent since –

- Sale of the Bowling & Entertainment division for $160 million
- Significant deleveraging of Ardent's balance sheet, with net debt reducing from $222 million at the end of FY17 to $11 million at 30 June 2018
- Improved performance at Main Event and the appointment of a new Chief Executive
- Signs of recovery, albeit slower than forecast, at Dreamworld
- Streamlined head office, leading to a material reduction in overhead costs
- Board renewal

A key component of our campaign for board representation was our plan to restore value at Ardent. We are committed to executing on that plan.

With a strengthened balance sheet and a clear proprietorial focus, we believe that Ardent is well-placed to deliver significantly improved performance over the medium term.

Clearview Wealth Ltd ("Clearview")

Ariadne holds 28.6 million shares (4.3%) in Clearview, with a market value at balance date of $33.2 million.

Following the acquisition by Sony Life of a 14.9% holding in Clearview in October 2016 at a price of $1.48 per share, and the subsequent entering into of a cooperation agreement between Clearview and Sony Life, there was an anticipation that Sony would likely proceed with a full offer for Clearview within the next 18 months.

This was not to be. No offer from Sony Life has been forthcoming and in April 2018 Clearview announced that the cooperation agreement between the parties had been terminated.

As a result, the Clearview share price has declined sharply, resulting in a mark-to-market decrease in the value of Ariadne's holding of $8.3 million during the period as reflected (net of tax) through Other Comprehensive Income in the accounts.

Clearview has an excellent management team and a growing business unburdened by the legacy issues impacting many of its competitors. We remain confident about Clearview's future prospects and believe that the company is in a good position to capitalise on the opportunities which will emerge from further likely changes in the financial services sector in Australia.

Investments

The Investment division recorded a net profit before tax of $3.6 million (2017: $11.9 million).

The division's result is derived from interest on cash reserves, share of profits from the Group's investments in associates, dividend and trading income from the trading portfolio and Ariadne's, previous investment in Hillgrove notes and options.

The strategic portfolio recorded a net loss of $6.9 million (2017: $17.9 million net gain) during the period due to mark-to-market revaluations.

Ariadne's investment in Foundation Life NZ Ltd has been rewarding, returning NZ$0.3 million of loan note interest during the period.

Ariadne's 53% interest in Freshxtend International Pty Ltd, with its 17% investment in the NatureSeal group, again contributed positively during the period.

Car Parking

The Group's car parking division recorded a profit before tax of $2.8 million (2017: $69.4 million).

The division's result reflects the Group's surrender of the lease at Tank Street and the trading performance of the Group's two leased car parks before the surrender. The 2017 result also included the Group's net gain on sale of our interest in Secure Parking and our share of profits before its sale in January 2017.

Property

The Group's property division recorded a profit before tax of $17.8 million (2017: $0.6 million loss).

The division's result is derived from Ariadne's 50% share of profits from Tank Street and 50% share of profits from Orams Marine Village ("Orams") located in Auckland, New Zealand.

The Group's share of profit from Tank Street during the period was $15.7 million, which includes $14.8 million representing the Group's share of the property uplift in valuation.

The Group's share of profit from Orams during the period was $2.1 million, which also includes $1.0 million representing the Group's share of the marina's uplift in valuation, and interest on the loan to Orams of $0.4 million.

On 19 July 2018 Ariadne announced that its subsidiary, Ariadne Marinas Oceania Pty Ltd, together with Orams Marine Village and Orams Marine Services, had entered into a non-binding heads of agreement with Auckland city's regeneration agency, Panuku Development Auckland, to develop a new marine refit facility on the property known as Site 18 adjoining Orams Marine Village. The proposed development will feature a marine haul out and refit facility, commercial buildings and a residential component on the northern end. The facility will target marine vessels (including superyachts) up to 600 tonnes. The development will also provide increased maintenance facilities for Auckland's ferries, fishing vessels and commercial vessels. The majority of existing marine businesses within Orams Marine Village will also be accommodated in the new development. Exclusive negotiations to complete a Development Agreement for the site have commenced.

As previously stated, Ariadne remains confident that our investment in Orams is well placed to capitalise on the current and future development of the Wynyard Quarter area and the growth of the New Zealand marine industry.

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Simplified Balance Sheet

Ariadne is in a strong financial position as shown in the following presentation of the Group's assets and liabilities as at 30 June 2018.

Assets	**$M**	**$M**	**Liabilities**	**$M**
Cash		23.0	Debt	7.6
Investments			Minority Interests	5.7
Ardent	43.3		Payables and Provisions	1.8
ClearView	33.2		**Total Liabilities**	**15.1**
Tank Street	29.4			
Orams	16.0		**Shareholders' Funds**	**176.2**
Hillgrove	12.4			
Freshxtend	12.1			
Trading Portfolio	5.3			
Foundation Life	4.0			
Other	4.0			
Mercantile Investments	2.6			
Total Investments		162.3		
Deferred Tax Asset		1.0		
Fixed Assets and Receivables		5.0		
Total Assets		**191.3**	**Total Liabilities & Shareholders' Funds**	**191.3**

The Board believes that this presentation will assist shareholders in better understanding the composition of the Group's assets and liabilities.

Tax

Ariadne has significant carry forward revenue and capital losses available to offset future taxable profits. At 30 June 2018 these are estimated to be $77.6 million (30 June 2017: $77.0 million) and $92.8 million (30 June 2017: $91.2 million) respectively.

Dividends and Capital Management

A final dividend of 1.0 cent per share has been declared by the directors, bringing the total dividends for FY18 to 2.0 cents per share (2017: 3.5 cents per share). On 24 January 2018, as part of ongoing capital management initiatives, Ariadne extended its on-market buy-back facility for a further twelve months. The buy-back is for the purpose of acquiring shares where they are trading at prices below the Board's opinion of the intrinsic value of the shares. During the period Ariadne bought back and cancelled 1,708,697 shares at a cost of $1.3 million.

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