

FOLKESTONE **Equity Raising** **Presentation –** **November 2014**

A Specialist Funds Manager And Developer
Providing Real Estate Wealth Solutions

EQUITY RAISING OVERVIEW

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OVERVIEW



Folkestone

EXECUTIVE SUMMARY

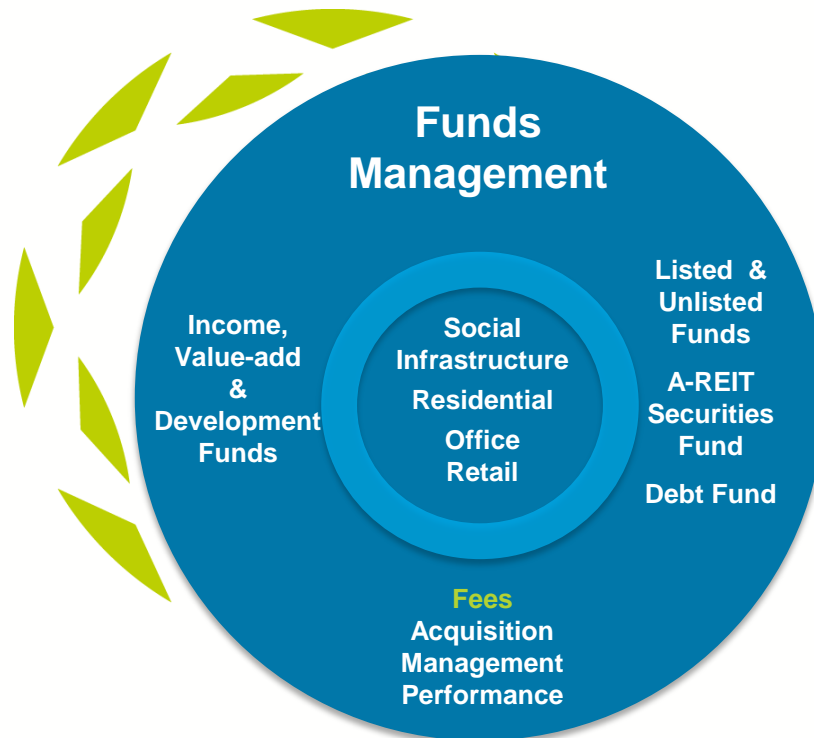
- Folkestone is a specialist real estate funds manager and developer
- FLK is seeking to raise \$42m (via an Institutional Placement and an Accelerated Non-Renounceable Entitlement Offer) to:
 - increase its strategic holding in Folkestone Education Trust (FET)
 - fund new development opportunities for both its balance sheet and to expand its funds management platform
- Issue price of \$0.20 per share represents:
 - a 10.0% discount to the 5 day VWAP¹
 - a 9.8% discount to the 30 day VWAP¹
- Since the last capital raising in November/December 2013 FLK has:
 - delivered 36% return to participants in that offer¹
 - expanded FUM by 35% with the launch of four unlisted funds and the acquisition of Maxim Asset Management
 - announced the merger of FET and Folkestone Social Infrastructure Trust (FST) to create Australia's largest listed A-REIT focused on early learning properties²
 - continued to deliver on its existing developments and grown its development pipeline for both on-balance sheet investments and its unlisted development funds

¹ Based on the closing price of \$0.225 as at 21 November 2014

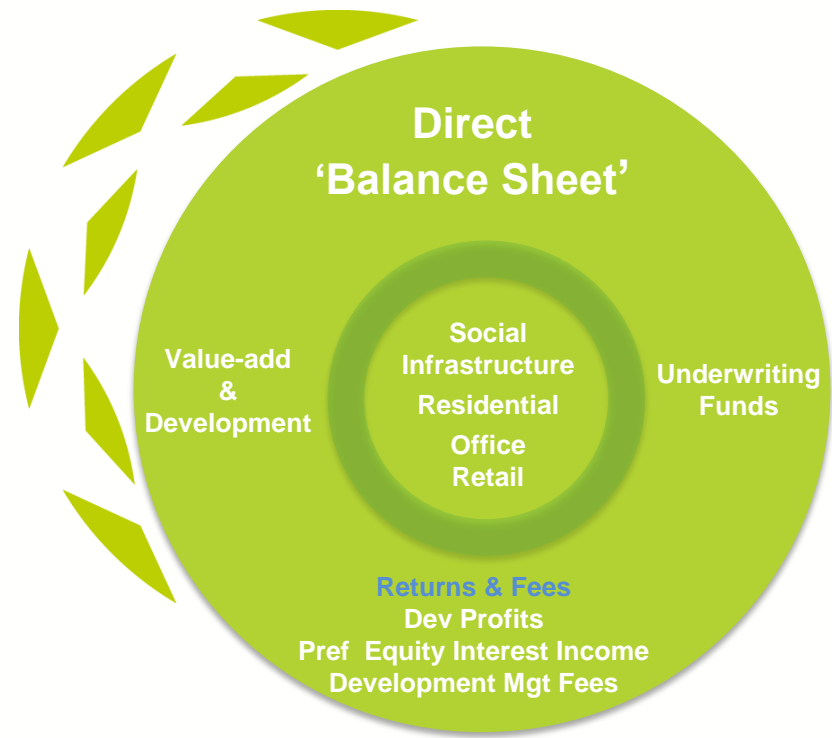
² The merger is subject to approval by FST Unitholders at a meeting scheduled for 19 December 2014. See page 11 for further details

FOLKESTONE'S BUSINESS

AN ASX LISTED REAL ESTATE FUND MANAGER AND DEVELOPER
PROVIDING REAL ESTATE WEALTH SOLUTIONS FOR
PRIVATE CLIENTS AND SELECT INSTITUTIONS



\$850m in funds under management¹



Market capitalisation of \$118m¹

¹ As at 21 November 2014

FOLKESTONE FUNDS MANAGEMENT OVERVIEW



Public Markets

Equity

Listed A-REITs

- Folkestone Education Trust (ASX: FET)¹
- Folkestone Social Infrastructure Trust (ASX: FST)¹

A-REIT Securities Funds

- Folkestone Maxim A-REIT Securities Fund

Equity (Private Funds)

Income Funds

- Altona North
- CIB
- Oxley
- Sydney Olympic Park
- Wollongong

Development Funds

- West Ryde
- Truganina

Debt

High Yield Debt Fund

- Folkestone Maxim Income Fund

\$850M IN FUM

- A menu of real estate funds across:
 - public (listed) and private (unlisted) markets, debt and equity to meet the various risk/return requirements of our clients
 - sectors - office, retail, residential and social infrastructure

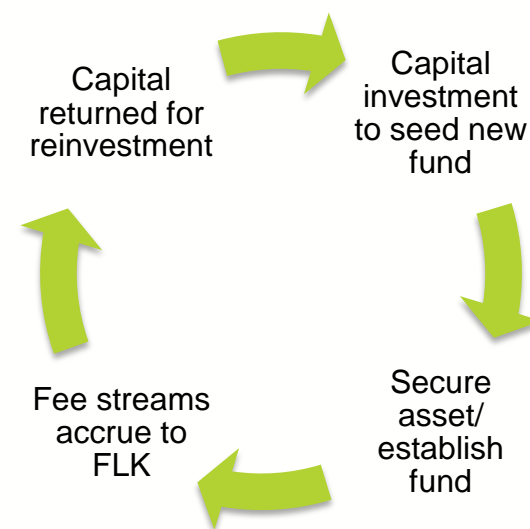
¹ The responsible entities of FET and FST announced a proposal to merge FST and FET on 13 November 2014. The merger is subject to approval by FST Unitholders at a meeting scheduled for 19 December 2014. See page 11 for further details

LISTED AND UNLISTED FUNDS

Current Funds ¹	Type	FUM (\$m)	Base Fees p.a	Other Fees
Folkestone Education Trust (ASX: FET) ¹	Listed	474	0.50% of gross assets	- Debt Arrangement Fee
Folkestone Social Infrastructure Fund (ASX: FST) ¹	Listed	121	1.0% gross assets ²	- Acquisition Fee - Disposal and Performance Fees
CIB Fund	Unlisted Wholesale	72	0.25% of gross assets	- Leasing Fee
Sydney Olympic Park Income Fund	Fixed term unlisted – Sept 2017	32	1.3% of net assets	- Acquisition Fee - Performance Fee
Wollongong Income Fund	Fixed term unlisted – June 2019	28	1.3% of net assets	- Acquisition Fee - Performance Fee
Altona North Income Fund	Fixed term unlisted – Oct 2020	33	1.1% of net assets	- Acquisition Fee - Performance Fee
Oxley Income Fund	Fixed term – April 2020	36	1.3% of net assets	- Acquisition Fee - Performance Fee
West Ryde Development Fund	Unlisted – Sept 2015	17	\$150,000	- Acquisition Fee - Performance Fee
Truganina Development Fee	Unlisted – June 2019	18 ²	\$400,000	- Acquisition Fee - Underwriting Fee - Performance Fee
Maxim Asset Mgt	Unlisted	19	0.95% of net assets	- Management Fee

1. The merger is subject to approval by FST Unitholders at a meeting scheduled for 19 December 2014.
2. The fee will be reduced to 0.5% p.a if the merger with FET proceeds
3. Reflects the forecast equity to be raised for this Fund. The capital raising commenced on 19 November and is due to be completed by February 2015

- Core, value-add & opportunistic (development) funds
- Manage both listed and unlisted funds, A-REIT securities
- Current FUM circa \$850m
- FLK has established significant momentum with its distribution channels and is well positioned to continue the rollout of new funds
- Recycling capital to grow FUM by underwriting new funds



DELIVERING ON ITS COMMITMENTS SINCE LAST RAISING

SHAREHOLDER RETURN

- Delivered a 36%¹ total shareholder return to participants in the November 2013 raising

SIGNIFICANTLY EXPANDED FUNDS MANAGEMENT PLATFORM

- Grown FUM by 35% from \$630m in Nov 2013 to \$850m in Nov 2014
- Four new unlisted real estate funds since Nov 2013
 - Folkestone West Ryde Development Fund which FLK co-invested with completion in CY15
 - Folkestone Real Estate Income Fund at Altona North
 - Folkestone Real Estate Income Fund at Oxley
 - Folkestone Truganina Development Fund which FLK has underwritten and co-invested (launched 19 November 2014)
- Acquired Maxim Asset Management that specialises in listed real estate securities
- Simplified social infrastructure funds management platform with the merger of the unlisted Folkestone Childcare Fund into FET and announced the merger of FET and FST²

ON-BALANCE SHEET DEVELOPMENTS

- Completed Stage 1 of Altona North, a 21,639 square metre large format retail centre in September 2014 that was pre-sold to the Folkestone Real Estate Income Fund at Altona North
- Entered into 50/50 JV with Wilmac Properties to commence Stage 2 of Altona North
- Continued development of Potters Grove, Officer, Victoria residential land subdivision
- Acquired, in a 50/50 JV with ID_Land, a call option over 8 hectares of land in Officer for a 140 lot residential land subdivision
- Underwrote and co-invested 20% (\$3.65m) in the Folkestone Truganina Development Fund, which has acquired, in an 80/20 JV with ID_Land, a 690 lot land subdivision in Truganina in Melbourne

¹ Closing price of \$0.225 as at 22 November 2014

² The merger is subject to approval by FST Unitholders at a meeting scheduled for 19 December 2014. See page 11 for further details

WEST RYDE DEVELOPMENT FUND

- FLK raised capital in 2013 to co-invest in the Folkestone West Ryde Development Fund (“Fund”)
- Residential apartment project in West Ryde, 20kms west of Sydney CBD
- Unlisted development fund in a 50:50 joint venture with Toga
- FLK co-invested 50% (\$8.7m) of the Fund’s equity interest in the project – effective 25% interest in the project
- FLK receives:
 - acquisition fee - \$609,000 (one-off)
 - management fees - \$150,000 p.a.
 - a performance based on 30% of any outperformance above an 18% equity IRR post fees, pre tax
- Since launching the Fund:
 - number of apartments has increased from 205 to 229 and commercial suites removed – net increase in revenue
 - 228 apartments have been pre-sold
 - average apartment price increase from \$8,500/sqm to \$9,100/sqm
- Fund forecast returns have been upgraded and FLK is forecasting to receive a performance fee

Fund Metrics	Information Memorandum	Current Forecast
Fund Forecast Profit (\$m)	5.56	7.86
FLK Share of Fund Profit (\$m)	2.78	3.93
Fund IRR (pre-tax, post fees) (%)	18.0	27.3
Fund ROE (pre-tax, post fees) (%)	32.0	45.0
Forecast FLK Performance Fee (\$m)	-	1.2



FET AND FST MERGER

- On 13 November 2014, FET announced a proposal to merge with FST subject to approval of FST Unitholders (the Proposal)
- The Independent Directors representing FST have unanimously recommended the Proposal, in the absence of a superior proposal
- FLK agreed to acquire 9.0m Units in FET for \$16.8m conditional on approval from FST Unitholders
- A meeting of FST Unitholders is scheduled for 19 December 2014

BENEFITS TO FET UNITHOLDERS

- ✓ Significant increase in early learning properties from 354 to 401
- ✓ Accretive to FY15 DPU and NTA per unit
- ✓ Increased market capitalisation and enhanced liquidity
- ✓ Reduced transaction costs through lower stamp duty than outright purchase
- ✓ No additional capital from FET investors or financiers

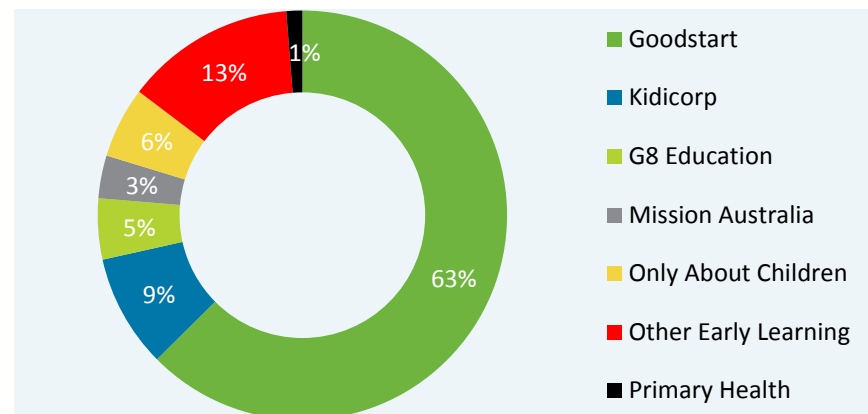
BENEFITS TO FST UNITHOLDERS

- ✓ Significant premium to previous trading prices and NTA
- ✓ Increased diversification with reduction in QLD exposure
- ✓ Enhanced growth profile via access to FET development pipeline
- ✓ Reduction in ongoing management fees
- ✓ Increased market capitalisation and enhanced liquidity

OVERVIEW OF FET POST MERGER WITH FST

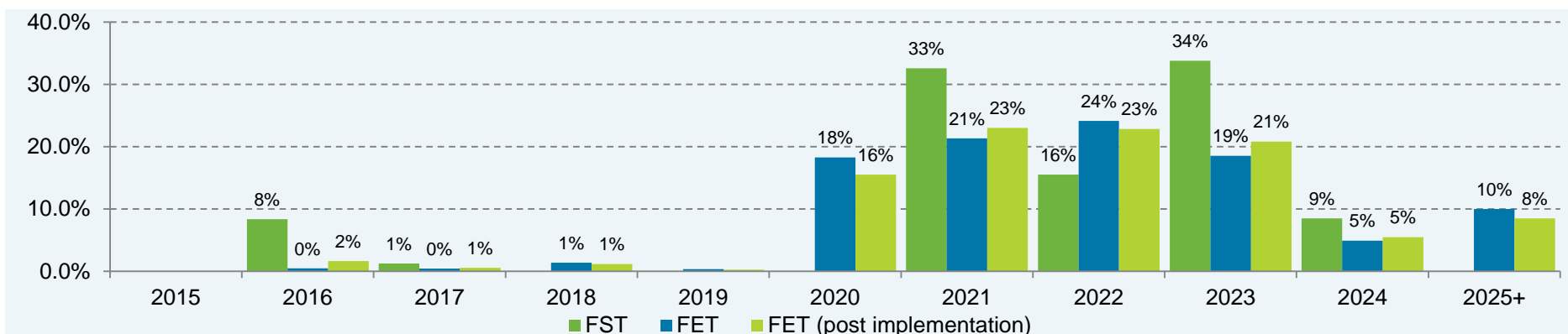
- FET is an ASX listed A-REIT that is the largest Australian property trust investing in early learning properties in Australia and New Zealand
- Post the merger with FST¹, FET will own 402 direct property assets (401 early learning properties and 1 medical centre) with gross asset value of \$553 million
- FET has an active development pipeline of early learning properties valued at \$66m 'upon completion'
 - 6 early learning centres are under development
 - 2 development sites are under contract to purchase
 - in negotiations to acquire a further 6 sites

Tenant Diversification of FET (Post Implementation)



Diversification by tenant rental income

Lease Expiry Profile of FST, FET and FET (Post Implementation)

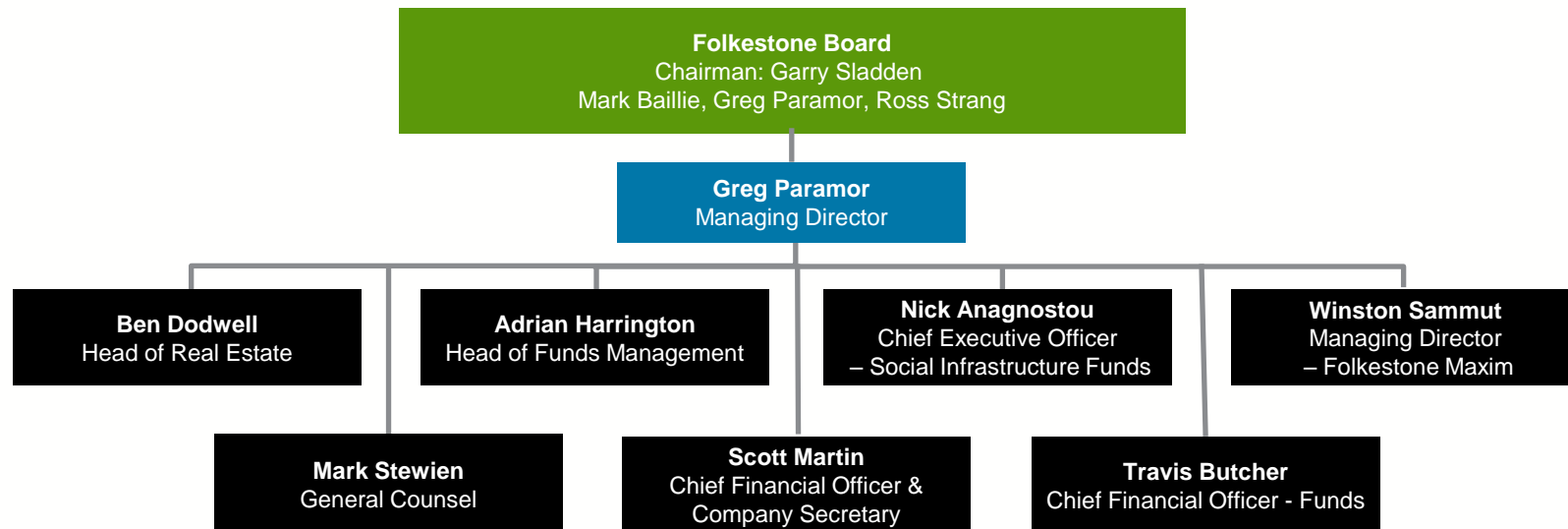


Lease expiry by income for year ending June 2014

¹ The merger is subject to approval by FST Unitholders at a meeting scheduled for 19 December 2014

BOARD & SENIOR MANAGEMENT

- Significant experience to create value for shareholders and investors in its funds
- Long-standing relationships in the Australian real estate, financial services and funds management industries
- Successful track record of performance across real estate funds management, investment and development activities





EQUITY RAISING APPLICATION OF FUNDS

APPLICATION OF FUNDS

KEY TAKEAWAYS

- FLK is seeking to increase its interest in FET from 1.3% to 9.5%¹ via the acquisition of:
 - 11.3m units in FET for \$21.7 m²
 - FST's interest in FET (9.0m units) for \$16.8m³
- FLK has secured a debt facility \$12.8m to partly fund the acquisition of FET units
- FLK is currently in advanced negotiations on a number of development opportunities to:
 - invest capital directly in projects
 - grow its funds management platform

Sources	(\$m)	Uses	(\$m)
Placement	15.8	Acquire FET Units	38.5
Entitlement Offer	26.2	Future developments	14.5
Debt	12.8	Transaction costs	1.8
Total	54.8	Total	54.8

Ownership Analysis	FET (Units m)	% of FET
FLK current holding	2.8	1.3
FLK off-market acquisition of FET Units	11.3	5.5
FLK holding in FET Pre FET/FST merger	14.1	6.8
FLK acquisition of FST's Units in FET ^{2,3}	9.0	3.7
FLK holding in FET post FET/FST merger	23.1	9.5

¹ Adjusted for the FET units on issue post the merger with FST

² Conditional on the settlement of the Placement

³ Conditional on a FST Uniholders meeting scheduled for 19 December 2014

DEVELOPMENT OPPORTUNITIES

- FLK seeks to regularly turn over its balance sheet capital to:
 - invest directly (on-balance sheet)
 - sell down to an FLK fund (recycle)
 - co-invest with an FLK fund (invest along side)
- FLK is under exclusive due diligence on 6 development projects with a combined estimated end value of \$715m (FLK indicative share \$332m)
- FLK is in negotiation on a further 5 projects across residential (land/apartments), retail and retirement/aged care

Under Exclusive Due Diligence	Location	Status	FLK Indicative Share %	Estimated End Value (A\$m)	FLK Indicative Value (A\$m)
Residential (~500 lots)	VIC	Zoned/STCA ¹	25.0	100	25
Residential (~500 Apartments)	QLD	Complying Development	50.0	200	100
Residential (~300 Apartments)	NSW	Zoned/STCA ¹	40.0	125	50
Mixed Use (Residential/Retail/Commercial/Other)	NSW	STCA ¹	33.3	200	67
Retail – (~5,000 sq.m.)	VIC	Zoned/STCA ¹	100.0	30	30
Retail – (~13,000 sq.m.)	VIC	Zoned/STCA ¹	100.0	60	60
Total				715	332

¹ STCA – subject to council approval

FOLKESTONE OUTLOOK

- Well positioned to continue to deliver on the strategy to:
 - deliver on existing balance sheet projects
 - grow its suite of listed and unlisted real estate funds
 - seek value-add and opportunistic (developments) acquisitions for its on-balance sheet investments
- Grow recurring earnings through funds management
 - actively source product for existing and new income and development funds
 - take advantage of strong demand from investors for real estate funds
 - further expand FET (post merger) with active development pipeline valued at ~\$66m “upon completion” and additional 14 sites under negotiation
 - opportunity to capitalise on the growing social infrastructure space – social and demographic changes plus government increasingly looking at public-private partnerships
- Undertake earnings accretive opportunistic acquisitions for its on-balance sheet investments



Millers Road Home, Altona North



Moorabbin Police Station

DETAILS OF THE EQUITY RAISING



EQUITY RAISING OVERVIEW

- Folkestone (“FLK”) is seeking to raise \$42.0m through an equity raising (‘Equity Raising’)
- Issue price of \$0.20 per New Share representing a:
 - 10.0% discount to the 5 day VWAP¹
 - 9.8% discount to 30 day VWAP¹
- Greg Paramor (Managing Director) and Mark Baillie (Non-Executive Director) have committed to subscribe for their full entitlement in addition to sub-underwriting a component of the Entitlement Offer



Thales Building, Sydney Olympic Park



South Morang Early Learning Centre

¹ Based on the closing price of \$0.225 as at 21 November 2014

EQUITY RAISING STRUCTURE

\$42 M EQUITY RAISING AT AN OFFER PRICE OF \$0.20, COMPRISING A \$15.8 M INSTITUTIONAL PLACEMENT AND A \$26.2 M ACCELERATED NON-RENOUNCEABLE ENTITLEMENT OFFER

INSTITUTIONAL PLACEMENT

- Institutional Placement to raise \$15.8m offered to existing and new institutional investors
- Shares issued under the Institutional Placement will not be entitled to participate in the Entitlement Offer

ENTITLEMENT OFFER

- 1-for-4 accelerated non-renounceable entitlement offer of \$26.2m
- Record date is Thursday 27 November 2014
- Entitlement Offer will involve an accelerated Institutional Entitlement Offer and a Retail Entitlement Offer:
 - New Shares not subscribed for under the Institutional Entitlement Offer will be placed into the Institutional Placement bookbuild
 - Retail Entitlement Offer opens Tuesday 2 December 2014 and closes 5:00pm AEDT Thursday 11 December 2014
 - Eligible Shareholders under the Retail Entitlement Offer may apply for up to \$100,000 worth of additional New Shares in excess of their entitlements (subject to scale back as described in the Retail Entitlement Offer Booklet)

RANKING

- New Shares issued under the Equity Raising will rank equally with existing FLK shares

ADVISORS

- BG Capital and Moelis & Company are Joint Financial Advisors and Joint Lead Managers to the Placement and Entitlement Offer

PRO FORMA BALANCE SHEET

(\$m)	30-Jun-14	Adj	Capital Raising	FST/FET Merger ¹	Pro-Forma
Cash	27.2	(2.9)	18.5	(4.0)	38.8
Trade and other receivables	7.2	(0.9)			6.3
Inventories	38.2	(25.0)			13.2
Assets classified for sale	3.2	(3.2)			-
Other financial asset	4.5	0.8	21.7	16.8	43.8
Investment in JV	19.6	8.0			27.6
Intangibles and goodwill	12.8				12.8
Other assets	3.8				3.8
Total assets	116.5	(23.2)	40.2	12.8	146.3
Trade payables	(6.5)	5.0			(1.5)
Borrowings	(26.1)	19.0		(12.8)	(19.9)
Other liabilities	(0.6)				(0.6)
Total Liabilities	(33.2)	24.0	-	(12.8)	(22.0)
Net Assets	83.3	0.8	40.2	-	124.3
Net Assets attributable to FLK	75.0				116.0
NAV per Share (cents)	14.3				15.8

- 30 June 2014 balance sheet adjustments reflect:
 - sell down of Oxley fund (\$3.2m cash inflow)
 - launch of Folkestone Truganina Development Fund (\$8.4m cash drawdown)
 - completion of Officer Stages 2 and 3A (\$1.9m cash inflow)
 - completion of Altona Stage 1 (\$25m reduction in inventory, retire \$19m in project level debt and \$5m reduction in payables)
 - launch of Officer Stage 2 (\$0.6m cash drawdown)
 - revaluation of FET holding (up \$0.8m)
- Net proceeds from capital raising are applied to acquisition of 11.3m units in FET (\$21.7m) and working capital to fund new developments
- FST/FET Merger adjustments reflect conditional acquisition of 9.0m FET units for \$16.8m funded from cash (\$4m) and drawdown on debt (\$12.8m)

¹ Subject to the successful merger of FST and FET

EQUITY RAISING TIMETABLE¹

Trading Halt and announcement of Acquisitions and Equity Raising	Monday, 24 November 2014
Placement and Institutional Entitlement Offer Opens	Monday, 24 November 2014
Placement and Institutional Entitlement Offer Closes	Tuesday, 25 November 2014
Trading recommences	Wednesday, 26 November 2014
Record date for Entitlement Offer	7:00pm Thursday, 27 November 2014
Retail Entitlement Offer opens	Tuesday, 2 December 2014
Dispatch of Retail Entitlement Offer Booklet and entitlement and acceptance forms	Tuesday, 2 December 2014
Settlement of Placement and Institutional Entitlement Offer	Wednesday, 3 December 2014
Allotment and quotation of New Shares issued under the Placement and Institutional Entitlement Offer	Thursday, 4 December 2014
Retail Entitlement Offer closes	Thursday, 11 December 2014
Settlement of Retail Entitlement Offer	Wednesday, 17 December 2014
Allotment of New Shares issued under the Retail Entitlement Offer	Thursday, 18 December 2014
Quotation of New Shares issued under the Retail Entitlement Offer	Friday, 19 December 2014
Dispatch of holding statements	Monday, 22 December 2014

1. All dates and times are indicative only and subject to change at the discretion of the Company. All dates and times are references to Australian Eastern Daylight Saving Time.

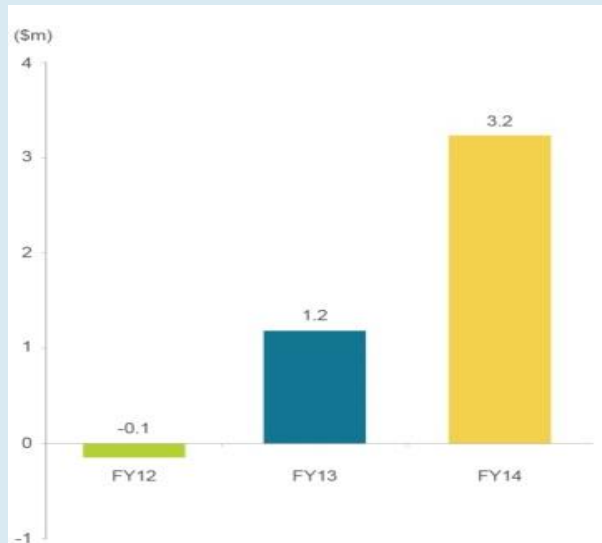


APPENDIX 1 – FY 14 RESULTS

FY14 PERFORMANCE

FOLKESTONE HAD ANOTHER ACTIVE YEAR WITH FURTHER GROWTH IN OUR FUNDS MANAGEMENT PLATFORM AND THE CONTINUED DEVELOPMENT OF OUR ON-BALANCE SHEET ASSETS

Operating Profit



Funds Under Management



Share Price



“Delivering strong results for our Investors in the FY14 reflecting the continued focus on our strategy to provide real estate wealth solutions”

FY14 RESULT – REVENUE

\$'000s	30 June 2014	% of Total	30 June 2013	% of Total	Variance
Funds Management¹	7,018	68.5	5,223	63.0	1,795
Development²	2,088	20.4	2,315	28.0	(227)
Other³	1,140	11.1	744	9.0	396
Total Revenue	10,246	100%	8,282	100%	1,964

- Funds management contributed \$7.0m or 68.5% of revenue in FY14, up from 63.0% in FY13
- Development revenue contributed \$2.1m or 20.4% of revenue, down from 28.0% in FY13
 - \$1.1m was generated from preferred equity interest
 - \$1.0m was generated from Folkestone's share of development profits from Officer, Karratha and West Ryde
- Other income was up \$0.4m in FY14 to \$1.1m, primarily due to distributions from Folkestone's holding in Folkestone Education Trust and the distribution received on the underwrite of units of the Folkestone Real Estate Income Fund at Oxley

1. Funds management revenue includes acquisition fees, disposal fees, leasing fees, on going management fees and cost recoveries.

2. Development revenue includes interest income on preferred equity loans, fees generated from development projects and share of joint venture profits.

3. Other revenue includes interest income earned from cash reserves and distributions from Folkestone's investment in FET and Folkestone's underwriting units in the Folkestone Real Estate Income Fund at Oxley.

An architectural rendering of a modern, multi-story building at dusk. The building features a mix of dark and light facades, with large windows and balconies. A prominent green swoosh graphic curves across the image from the bottom left towards the center. The sky is dark with some clouds, and the building's interior lights are visible through the windows. People are shown walking on the sidewalk in front of the building, and a road is visible on the right side.

APPENDIX 2 – KEY RISKS

KEY RISKS

- This section summarises some of the key risks that may affect the future performance of an investment in FLK. This is not an exhaustive list of the relevant risks and investors should read the entire presentation. If any of the following risks materialise FLK's business, financial condition and operation results may adversely be impacted. Investors should also consider consulting their financial, tax, or legal adviser so as to ensure they understand fully the terms and conditions of this Equity Raising and the inherent risks.

General Investment Risks Affecting FLK

- **Economic environment:** General economic factors such as interest rates, inflation, business and consumer confidence and general market factors may have an adverse impact on FLK's earnings. Aspects of the business that could be affected include reduced management and performance fees, reduced funds under management, reduced distribution income and other adverse consequences.
- **ASX market volatility:** The ASX price of FLK shares will fluctuate due to various factors including general movements in interest rates, the Australian and international investment markets, international economic conditions, global geo-political events and hostilities, investor perceptions and other factors that may lead to FLK's financial performance and position. Recently, markets have become more volatile, with volatility in some markets at very high levels. New Shares may trade at or below the price at which they commence trading on ASX including as a result of any of the factors that have been mentioned and factors such as those mentioned may also affect the income, expenses and liquidity of FLK. Additionally, the stock market can experience price and volume fluctuations that may be unrelated or disproportionate to the operating performance of FLK.
- **Liquidity and realisation risk:** there can be no guarantee that there will be an active market in the New Shares or that the price of the New Shares will increase. There may be relatively few or many buyers or sellers of the New Shares on the ASX at any one time which may lead to increased prices volatility and affect the price at which shareholders are able to sell their New Shares.
- **Interest rates:** Adverse fluctuations in interest rates, to the extent that they are not hedged or forecast, may impact on FLK's earnings. FLK's asset values and the asset value of funds managed by FLK may also be affected by any impact that rising interest rates may have on real estate markets in which FLK operates.
- **Real estate liquidity:** The real estate assets, to which FLK and the funds managed by FLK are exposed, are by their nature, illiquid investments. There is a risk that realisation of any of these assets may not be able to be completed in a timely manner and at a value expected by FLK.

KEY RISKS (CONT'D)

General Investment Risks Affecting FLK (cont'd)

- **Real estate performance:** FLK is subject to the prevailing real estate market conditions in the sectors in which each of the development or funds under control of FLK operate. Deterioration in investment markets conditions in the real estate sector due to a sustained downturn in the domestic and/or global economic climate could adversely impact FLK's earnings through directly reducing the value of existing developments or funds under management by FLK and through reducing the attractiveness of the real estate sector to investors.
- **Taxation implications:** Future changes in taxation laws, including changes in interpretation or application of those laws by the court or taxation authorities, may affect taxation treatment of an investment in FLK's shares, or the holdings and disposal of those shares. Tax considerations may differ between security holders, therefore, prospective investors are encouraged to seek professional tax advice in connection with any investment in shares. Further, changes in tax law, or changes in that way tax law is, or is expected to be, interpreted in the various jurisdictions in which FLK operates may impact the future tax liabilities of FLK. Those laws may also adversely affect the taxation treatment of entities in FLK and that may in turn adversely affect the value of FLK's shares.
- **Regulatory risk and changes in legislation:** FLK is subject to the usual business risk that there may be changes in laws or government legislation, regulation and policy that reduces income or increases costs. FLK operates in a highly regulated environment and it, and the FLK Funds, are subject to a range of industry specific and general legal and other regulatory controls (including Australian Financial Services Licensing (AFSL) and Anti Money Laundering / Counter Terrorism Funding (AML/CTF) requirements). Regulatory breaches may affect FLK's operational and financial performance, through penalties, liabilities, restrictions on activities and compliance and other costs. In addition, changes in government legislation and policy in those jurisdictions in which FLK and the FLK Funds operate may affect future earnings. This may include changes in stamp duty and tenancy legislation, policies in relation to land development and zoning and delays in granting of approvals or registration of subdivision plans. FLK is also subject to the usual risks around changes in taxation regimes and Accounting Standards. These changes may adversely affect the future earnings, asset values and the market value of FLK shares quoted on the ASX.
- **Forward looking statements:** There can be no guarantee that the assumptions and contingencies on which forward looking statements, opinions and estimates are based will ultimately prove to be valid or accurate. The forward looking statements, opinions and estimates depend on various factors, many of which are outside the control of FLK.

KEY RISKS (CONT'D)

FLK Specific Risks

- **Execution of strategy:** the ability of FLK to formulate and execute its strategy is key to its ability to operate a business on a sustainable basis. If this is not achieved, the financial position of FLK may be adversely affected.
- **Reliance on third party equity:** As a fund manager, growth in FLK's earnings may be impacted on the ability of FLK to establish new listed or unlisted funds. Specifically such income growth is dependent on the ability of FLK to continue to source and maintain equity from new and existing investors for current and future funds.
- **Co-investment:** FLK may hold co-investment positions in a number of the funds it manages. Such investments are subject to the general investment risks outlined above. Factors influencing the financial performance of these managed funds may adversely impact the value of FLK's assets or quantum of its earnings which may in turn impact the price of the listed shares.
- **FST/FET merger does not proceed:** The merger of FST and FET is subject to FST Unitholders approving the merger at a meeting scheduled for 19 December 2014. There is a risk that the FST Unitholders will not approve the merger by the required majority and therefore the merger will not proceed. If the merger is not approved, FLK's acquisition of FST's interest in FET will not proceed. This will increase FLK's available working capital and balance sheet for investments.
- **Property related risks:** An investment in FLK is essentially an investment in real estate and therefore may be adversely affected by changes to the underlying real estate on its balance sheet and within its managed fund portfolio, including: construction and development risk; tenancy default or failure or delays in letting up premises and falls in rental and occupancy levels; capital expenditure requirements; unforeseen litigation with tenants; native title claims; claims under environmental legislation; and changes in local, state and territory and federal legislation and regulations, particularly relating to planning.
- **Reliance on key personnel:** The success of FLK is highly dependent on the abilities and performance of the Directors, Senior Management and the FLK Investment Team. The ability of FLK to retain and attract high quality executives, fund managers and employees is important to the operations of FLK. Loss of key personnel may adversely affect the business performance of FLK, the valuation of FLK's business and assets of the price of the New Shares.
- **Dividends:** The payment of dividends, if any, is determined by the Board from time to time at its discretion and is dependent on the profitability and cashflow of FLK's business at the time.

KEY RISKS (CONT'D)

FLK Specific Risks (Cont'd)

- **Litigation and legal action:** FLK and other members of the FLK Group, may be exposed to potential litigation from investors, regulators, employees, business associates and companies. To the extent that these risks are not covered by insurance policies, litigation or the costs of responding to actual or potential litigation could have a material adverse impact on FLK's financial position and earnings and the price of FLK shares.
- **Opportunity risk:** the performance of FLK is dependent on the senior executives and senior management team identifying and executing suitable investment opportunities. Such opportunities are subject to market conditions and other factors which may be outside the control of the senior executives and senior management team.
- **Refinancing requirements:** FLK is exposed to risks relating to refinancing its existing debt instruments and facilities. FLK has debt facilities maturing in 2015. If FLK experiences difficulty in refinancing some or all of these debt maturities, the terms on which they are refinanced are less favourable than at present, this may adversely affect FLK.
- **Debt covenants:** FLK's ability to meet its debt covenants is dependent on many factors, including its ability to manage its cashflow and to operate the business in a sustainable manner. If any of these criteria are not satisfied, there is the risk that funding covenants may not be met. This would give lenders the right to take action under the facility agreements which could have an adverse impact on FLK.
- **Counter-party risk:** FLK deals with many counter-parties, including customers, suppliers, joint venture partners and other service providers. If any of these parties fail to meet their contractual obligations, the result could have an adverse impact on FLK.
- **Occupational health and safety:** Construction activity carries with it a risk of personal injury to persons engaged. If FLK does not manage its OHS obligations properly, FLK would suffer a risk of a damages claim against it for injury as well as reputational risk, which may make it more difficult to obtain and retain highly skilled workers.
- **Development pipeline:** FLK currently owns a number of development assets that are presently at various stages of development. Real estate development carries a number of risks, including issues pertaining to the application of planning approvals from local authorities which can result in delays or require amendments to plans. Both of which may result in increased costs, breach of contract by building contractors and unforeseen circumstances, which may cause project delays or increases to building costs. There is a risk that the forecast returns from developments may not eventuate as forecast, with a consequential adverse financial impact on FLK.



APPENDIX 3 – GLOSSARY

GLOSSARY

TERM	DEFINITION
\$ or cents	Australian dollars
Additional New Shares	Shares applied for in excess of those allocated under the entitlement offer (up to a limit of \$100,000 worth of Additional New Shares)
Board	Board of Directors of Folkestone Limited (ABN 21 004 715 226)
Eligible Shareholders	A shareholder with a registered address in Australia or New Zealand
Entitlement Offer	1-for-4 non-renounceable entitlement offer to raise approximately \$26.2 million
Equity Raising	Raising of new equity, up to \$42.0 million, via the Institutional Placement and the Entitlement Offer
FET	Folkestone Education Trust (ARSN 102 955 939)
FLK	Folkestone Limited (ACN 004 715 226)
FLK Funds	A fund that FLK Group acts as a Responsible Entity or Trustee
FLK Group	FLK and its wholly owned subsidiaries
FST	Folkestone Social Infrastructure Trust (ARSN 094 614 874)
FUM	Funds under management
Institutional Placement	An institutional placement to raise approximately \$15.8 million
IRR	Internal rate of return
New Shares	Shares issued under the Institutional Placement and Entitlement Offer
NTA	Net tangible assets
Offer Price	\$0.20 cents per New Share
VWAP	Volume weighted average price

DIRECTORY

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Mark Baillie – Non-Executive Deputy Chairman

Greg Paramor – Managing Director

Ross Strang – Non-Executive Director

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