AUGUSTA

NOTICE OF MEETING

4 JULY 2016

NOTICE OF MEETING

Augusta Capital Limited (the *Company* or *Augusta*) gives you notice that a special meeting of the shareholders of the Company will be held at **The Pullman Hotel, Corner Princes Street and Waterloo Quadrant, Auckland** on **25 July 2016** at **2.00 pm.**

The business of the meeting will be:

1. Presentation on the proposed sale of the Finance Centre
2. Shareholder questions
3. To consider and, if thought fit, to pass the following resolution as a special resolution of the Company for the purpose of NZX Main Board Listing Rule 9.1.1 and section 129 of the Companies Act 1993:
   "That the shareholders of Augusta Capital Limited approve the sale of the Finance Centre properties (as more particularly described in the Explanatory Notes) to Heng Yue Limited, pursuant to sale and purchase agreements between the Company and Heng Yue Limited dated 14 June 2016, for the consideration and otherwise on the terms set out in the Explanatory Notes and that the directors be authorised to take all actions, do all things and execute all necessary documents and agreements necessary or considered by them to be expedient to give effect to such transactions."

DIRECTORS' RECOMMENDATION

The Directors unanimously recommend that you vote in favour of the resolution.

EXPLANATORY NOTES

Explanatory Notes on the above resolution and the reasons for the Directors' recommendation are set out on the following pages.

Also enclosed with this notice of meeting is the executive summary of CBRE Limited's valuation report on each of the Finance Centre properties as at 31 March 2016. The full valuation reports are available on request from Augusta. Any shareholder who wishes to request a copy of those full valuation reports will be emailed and couriered a copy free of charge.

WHY ARE THE RESOLUTIONS REQUIRED?

NZX Main Board Listing Rule 9.1 requires approval of an ordinary resolution of shareholders if the Company enters into a series of linked or related transactions to sell assets in respect of which the gross value is in excess of 50% of the Average Market Capitalisation of the Company. The most recent valuation of the Finance Centre assets (by CBRE Limited as at 31 March 2016) valued those assets at $89.8 million. The Average Market Capitalisation is approximately $97 million as at the date of this notice.

In addition, section 129 of the Companies Act 1993 provides that a company must not enter into a major transaction without the approval of a special resolution of shareholders. A major transaction includes the disposal of assets the value of which is more than half the value of the Company's assets. The Company's assets are, as at 31 March 2016, valued at approximately $149 million on a market value basis. This differs from the asset value recorded in the Company's financial statements (which is $137 million) as it reflects the market value of the funds management business identified in the recent PwC valuation (that PwC valuation was obtained in connection with the Company's recent analysis of its Portfolio Investment Entity or 'PIE' status)[1] . Accordingly, the resolution needs to be passed as a special resolution.

A special resolution is 75% of the votes of shareholders entitled to vote and voting on the resolution. The Company is not aware of any voting restrictions applying to voting on the special resolution under the NZX Main Board Listing Rules.

STATUTORY NOTICE

The resolution to be put to the special meeting is a special resolution required by section 106(1)(b) of the Companies Act 1993. Accordingly, if the special resolution is passed and a shareholder (entitled to vote on the special resolution) casts all their votes (being votes attached to shares in their name and having the same beneficial owner) against the special resolution, then that shareholder is entitled to require the Company to purchase its shares in accordance with section 111 of the Companies Act 1993.

If a shareholder wishes to require the Company to purchase its shares, they must give notice to the Company within 10 working days of the resolution being passed at the special shareholder meeting. Following that notice, the Company has 20 working days to:

a. Agree to the purchase;
b. Arrange for some other person to purchase;
c. Apply to the Court for an order exempting the Company from the requirement to purchase; or
d. Arrange for the resolution to be rescinded; and
e. Give notice to the shareholder of the decision.

Within 5 working days of notifying the shareholder of the Company's decision to purchase the shares, the board must give notice of the price it offers to pay and how it has calculated the fair and reasonable value of the shares. Shareholders have a right to object and refer the determination of the price to an arbitration process.

PROXIES

You may exercise your right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in your place. A proxy need not be a shareholder of the Company. You may direct your proxy to vote, or give your proxy a discretion to vote how he/she sees fit. If you wish to give your proxy such discretion you should mark the box accordingly. If you do not mark any box then your direction is to abstain.

A proxy form is attached to this notice. If you wish to vote by proxy you must complete the form and produce it to the Company so as to be received no later than 2.00 pm on 23 July 2016.

FINANCIAL STATEMENTS

A copy of Augusta's financial statements for the year ended 31 March 2016 are contained within its Annual Report for that period which is available on Augusta's website at www.augusta.co.nz/financial-reports/

The Chairman of the Company is willing to act as proxy. If you appoint the Chairman as proxy but do not direct him how to vote on any particular matter then the Chairman will vote in favour of the resolution.

By order of the Board

Paul Duffy, Chairman
4 July 2016

[1] Copies of announcements by the Company relating to its PIE status (which were released on 24 March 2016 and 1 July 2016) are available on the Company's website at http://www.augusta.co.nz/nzx-releases-2/

AUGUSTA CAPITAL LIMITED
SHAREHOLDER INFORMATION – EXPLANATORY NOTES

INTRODUCTION

Since listing in 2006, and even earlier since the company's inception in 2001, we have been on a journey with a vision. From humble beginnings as a start-up syndication company, to the listing of Kermadec Property Fund, to the merger of Kermadec with Augusta Funds Management to form Augusta Capital, now one of New Zealand's largest property fund managers.

We have since the merger carried approximately $100 million of investment assets on our own balance sheet but with the core of our business being funds management primarily through property syndication. Having reviewed and considered our strategy for growth for the future your Board have formed the view that the significant capital we have allocated to passive investment assets could be better invested in our funds management business. We believe this will provide greater returns on capital than the passive rent-driven yield that we have previously received from the various investment assets we have held historically.

Since embarking on this strategy we have sold assets at Lambie Drive and 7 City Road[2] and the last remaining assets for disposal to complete the strategy is of course the Finance Centre. Realising $96 million from this sale, albeit over a period of 3 years, is very significant for the company in terms of what it enables us to do as far as originating and co-investing in new managed funds initiatives across a range of sectors.

This is consistent with the strategy we have shared with the market for some time and is the final step in solidifying our position as one of New Zealand's leading property fund managers. More importantly it provides the Company with a significant platform for future growth in earnings through a diversified range of managed property investment products.

[2] Copies of the announcements relating to these transactions are available on the Company's website at http://www.augusta.co.nz/nzx-releases-2/

THE TRANSACTION

On 14 June 2016, Augusta Capital Limited (Augusta) entered into separate sale and purchase agreements in respect of each of the four properties comprising the Finance Centre with Heng Yue Limited. The agreements are based on the most recent edition of the ADLS/REINZ Sale and Purchase Agreement. The key details of the sale and purchase agreements are as follows:

THE FINANCE CENTRE (THE PROPERTIES)	1. Augusta House (Lot 6), 19 Victoria St West, Auckland Central 2. Podium Retail (Lot 5), 25 Victoria St West, Auckland Central 3. Finance Centre Podium (Lot 9), 22 Durham St West, Auckland Central 4. Finance Centre Carpark (Lot 8), 22 Durham St West, Auckland Central Throughout this notice of meeting, the above portfolio of properties is referred to as either "The Finance Centre" or "The Properties".
PURCHASER	The Purchaser is Heng Yue Limited, which is ultimately wholly owned by David (Duoyu) Bei, a New Zealand resident. Mr Bei holds other property interests in New Zealand through related companies. Mr Bei personally guarantees the obligations of Heng Yue Limited under the sale and purchase agreements.
PURCHASE PRICE	The total purchase price is $96,000,000 and is broken down as follows; Augusta House: $30,000,000 Podium Retail: $25,000,000 Finance Centre Podium: $11,000,000 Finance Centre Carpark: $30,000,000
DEPOSIT	$9,600,000 (or 10% of the purchase price) paid once the agreement is unconditional. A further set of deposits totalling $6,600,000 is due on 1 June 2017 consisting of; Podium Retail: $2,500,000 Finance Centre Podium: $1,100,000 Finance Centre Carpark: $3,000,000
SETTLEMENT DATES	Augusta House: 1 October 2016 Podium Retail: 1 April 2018 Finance Centre Podium: 1 April 2019 Finance Centre Carpark: 1 April 2019 The above settlement dates are subject to new titles from the current subdivision being issued – Augusta expects these will be issued within the next 1-2 months. If those titles are not obtained, settlement occurs 10 working days after search copies for the new titles are issued.
INTERDEPENDENCE OF AGREEMENTS	Each agreement is interdependent. If the purchaser defaults on one settlement, Augusta has the right to terminate all other sale and purchase agreements which have yet to settle. The Purchaser, however, does not have the right to terminate any of the sale and purchase agreements if it fails to settle one or more of the agreements.
AGREED CAPEX SPEND	Augusta has committed to the following capital expenditure: • Finance Centre Carpark: Replace Durham Street Tower Cladding - $750,000 • Finance Centre Podium: Repair/replace canopy - $330,000 • Podium Retail: Replace roof - $80,000 The total agreed capex spend is $1,160,000. If Augusta and the Purchaser are unable to agree to the scope of works for the above capital expenditure (including after going through an agreed mediation process), the relevant amount will be deducted from the purchase price at settlement and the Purchaser will be free to complete the works. All other capital expenditure is required to be funded by the Purchaser.

MANAGEMENT OF THE PROPERTIES	Augusta continues to manage the properties until their applicable settlement dates. Augusta is subject to the following restrictions and obligations after the unconditional date and prior to settlement: • Augusta cannot consent to any assignment or subletting or grant any new lease or renew any lease or review or determine rent under any lease or otherwise take any steps in relation to the tenancy (except to the extent that the vendor is legally obliged to or to the extent that such arrangements would not extend beyond settlement) without first obtaining the written consent of the purchaser (such consent not to be unreasonably withheld); • Augusta will keep the Purchaser fully informed of any new lease documentation and consult with the Purchaser before entering into any new lease documentation; • Augusta generally will continue to manage the property in accordance with prudent property management practices.
WARRANTIES	No warranties are given other than warranties in respect of: • information provided being accurate; • no legal proceedings underway, pending or threatened, and the Properties are sold an "as is, where is" basis with all encroachments, faults and defects whether they are apparent or not by inspection.
CONDITIONS	Each agreement is conditional on the approval of Augusta's shareholders under the Augusta constitution, the NZX Main Board Listing Rules, the Companies Act 1993 and all applicable laws within 30 working days after execution of this agreement. If the shareholder approval condition is not satisfied, Augusta has agreed to reimburse the Purchaser for its reasonable due diligence costs, capped at $100,000 plus GST. There are no other conditions applying to the agreements. If shareholder approval is obtained (and the special resolution passed), the agreements will be unconditional.

USE OF SALE PROCEEDS

The sale proceeds will be applied towards repayment of debt or held as cash.

RECOMMENDATION

The Directors of Augusta Capital Limited unanimously recommend that shareholders approve the sale of the Finance Centre, Auckland Central.

QUEEN CITY LAW FEE

Augusta has negotiated a sale fee with Queen City Law of $2,500,000 plus GST. Fifty percent of that fee is payable on the agreements becoming unconditional and the initial deposits being paid. The remaining fifty percent is payable in four equal instalments at each settlement date.

This fee is payable for legal and strategic advisory services provided by Queen City Law in connection with the sale of the Finance Centre. Queen City Law is Augusta's primary adviser on the sale. Queen City Law negotiated the sale of the Finance Centre on Augusta's behalf.

While this fee is significant, Augusta notes it represents less than 3% of the purchase price of the Finance Centre, and believes it represents fair value. Absent Queen City Law's assistance, Augusta does not believe agreement would have been reached with the purchaser. It is also noted that no other commission or brokerage is payable by Augusta in connection with the sale of the Finance Centre.

Should the transaction not be approved by shareholders, Queen City Law has no entitlement to any part of the above fee or to any other fee.

WHAT HAPPENS IF THE TRANSACTION IS NOT APPROVED?

As noted above, if shareholders do not approve the transaction, Augusta has agreed to reimburse the Purchaser for its reasonable due diligence costs, capped at $100,000 plus GST.

More broadly though, Augusta will continue to investigate a sale of all or part of the Finance Centre assets if appropriate commercial terms can be agreed with potential purchaser(s). With the subdivision of the Finance Centre into four separate titles almost complete, this will allow each property within the Finance Centre to be sold separately or together. Such sales on an individual basis may not require shareholder approval.

In addition there is significant upcoming capital expenditure that Augusta will likely need to incur for maintenance of the Finance Centre. That capital expenditure is likely between $3 million and $5 million.

WHAT ARE THE KEY RISKS OF THE TRANSACTION?

There are two key risks from the transaction for Augusta:

- The purchaser defaulting on acquiring one or more of the properties during the deferred settlement period; and
- Augusta failing to replace the rental income from the Finance Centre with increased revenue from the funds management business and a failure to execute Augusta's strategy of growing its funds management business.

The deferred settlement period potentially increases the risk of the Purchaser failing to settle on the deferred property purchases, particularly if market conditions deteriorate. However, Augusta believes this is mitigated by the deposits paid by the Purchaser. The Purchaser must pay deposits equivalent to 10% of the purchase price for each component of the Finance Centre when the agreement becomes unconditional (on shareholder approval being provided). A further 10% is then payable on 1 June 2017 for the remaining three titles that are still to be settled (by that point the Augusta House transaction will have already settled). Those deposits provide security for the risk of Purchaser default and incentivise the Purchaser to complete each settlement (as it would otherwise lose those deposits).

If the Finance Centre is sold, the resulting rental income that is lost will need to be replaced by increased revenue from the funds management business and, in particular, recurring revenue from ongoing management fees. An increase in such revenue is directly linked to successfully implementing Augusta's strategic plan to grow the funds management business. For reasons set out within these explanatory notes, Augusta believes it has the capability and experience to execute that strategy and that its track record demonstrates this. However, a failure to execute that strategy may affect earnings. Further information on Augusta's strategic plan to grow the funds management business is set out on pages 9 to 14.

Augusta believes that the deferred settlement period provides a timeframe over which to implement that strategy and gradually grow funds management revenue as opposed to (in the absence of such a deferred settlement period) needing to replace all current rental income from the Finance Centre in a shorter space of time.

It should also be noted that the sale of the Finance Centre will potentially lower Augusta's interest costs as the proceeds of the Finance Centre sale are applied towards debt repayment. Interest costs will fluctuate as properties are warehoused or underwriting commitments are provided but is still a relevant consideration.

A further risk is that depreciation recovered on the sale of each component of the Finance Centre is greater than the $1.4 million currently provisioned for within Augusta's balance sheet. Further information on this and the impact of this risk is set out on page 12.

WHY SELL THE FINANCE CENTRE – STRATEGIC RATIONALE

In August 2015, Augusta signalled its future strategic focus when announcing the conditional sale of the Finance Centre. That sale did not eventuate, however, it signalled a future divestment intention.

It is intended that the capital proceeds from the sale are to be re-invested into the funds management sector of the business and the sale of the Finance Centre will provide a platform to enable Augusta to implement this strategic focus. The Directors believe this transaction is transformational as, following the sale of the Finance Centre, the Company will have a balance sheet to drive the growth of the funds management business.

The additional balance sheet capacity will be deployed in a very fluid manner. Capital will be used in one initiative and then recycled for use in other initiatives. Key funds management initiatives that can be driven by the balance sheet capacity provided by the sale of the Finance Centre:

1. **Warehousing of assets** – since 2012 Augusta has been able to acquire and hold on its balance sheet, ahead of offering to the market, the D & H Steel, Brick Street, Henderson and Bunnings Silverdale properties (which were syndicated) and 36 Kitchener Street (which formed part of Value Add Fund No. 1). Those assets had purchase prices in the $15 million to $25 million range. With the additional balance sheet capacity, Augusta will be able to acquire and hold assets of a greater value than that range. The ability to warehouse assets gives Augusta a greater ability to acquire the asset without having to raise equity (in a separate fund) immediately and time its offer to the market (with the flexibility of time giving the ability to put multiple assets together).
2. **Underwriting capability:** in order to provide assurance to the market when offering a product that the product will proceed, underwriting is necessary. Augusta has been able to fully underwrite a number of transactions in the previous 2 years but, as offerings have increased in size or due to multiple commitments at the same time, it has had to obtain third party underwriters. The fees paid to those underwriters (by the established syndicate or fund) in the past two years have equalled $2.751 million. Additional balance sheet capacity provides a greater ability to underwrite and not forego fees paid to third party underwriters. The ability to use the available capital and reduce borrowing for underwriting commitments may also lead to a reduction in funding costs associated with underwriting (such as bank line fees).

3. **Establish 'seed' funding and management investment capacity:** as well as underwriting part of the equity raise for Value Add Fund No. 1, Augusta made a commitment to hold a minimum of $6 million or 10% of the equity. That allows Augusta's incentives to be aligned with investors in the fund which is considered a key tool for incentivising management performance.
4. **Develop new property sector specific investment funds:** the ability to execute new property investment funds is assisted greatly by the three factors above. Without greater capacity to acquire assets when they are available, underwrite those offers and 'seed' funds, the establishment of such sector specific funds would be very difficult.

Augusta has aspirations to be New Zealand's leading diversified property fund manager and a clear market leader in property syndication, with proven ability to structure and execute innovative new property funds, and tangible international growth options.

Augusta is at an important stage in its evolution. Current factors which, in the board's view, support the sale of the Finance Centre and Augusta's change in focus are:

- Augusta's market leading position in our 'core' syndication market (albeit with increasing competition for new assets). The current syndication of Building A, Graham St (where NZME is the anchor tenant), which Augusta believes to be the largest ever syndication in New Zealand, demonstrates this position;
- Further launch of a more diverse range of investment products with both capital growth and cash yield characteristics. This has commenced during 2016 with the launch of Value Add Fund No. 1, which brought together five Auckland based properties providing a forecast pre-tax yield of 6% but with each property having potential value add components. The fund raised $60 million from wholesale investors (with Augusta making a $6 million investment to align its incentives as manager) and has a fixed five year term within which the properties must be sold and capital returned to investors. Augusta receives an annual management fee of $750,000 which reduces as properties are sold. Augusta will continue bringing new investment products (like Value Add Fund No. 1) to the market;
- Limited opportunities for growth in our direct property portfolio without substantial new capital. In order to grow the direct property portfolio (by acquiring further properties) rather than the funds management business, it is likely that substantial new capital will be required to fund the acquisition of those properties.

The Directors are confident that, whilst the transaction will have an immediate impact on the level of contracted recurring earnings, the current dividend level can be maintained in the interim period. The transaction frees up capital to re-invest into funds management initiatives as outlined above aimed at growing both the dividend yield and capital value for Shareholders. However, the staggered nature of the settlement dates maintains a level of recurring earnings while other recurring earnings are developed within the funds management business.

Augusta expects its dividend policy to remain unchanged during and after the staged settlement of the sale of the Finance Centre and to continue paying a minimum of 75-80% of net profit after tax (excluding any capital gains or losses, realised and unrealised), with this payout ratio under regular review. On 1 July 2016, Augusta announced that it expects it distribution level for the 2017 financial year to increase to 5.5 cents per share, from the 5 cents per share paid in the previous financial year.[3]

[3]A copy of the announcement is available on the Company's website at http://www.augusta.co.nz/nzx-releases-2/

AUGUSTA'S FUNDS MANAGEMENT CAPABILITY AND TRACK RECORD

Augusta first entered the funds management industry in April 2012 when it internalised its external management contract and acquired Augusta Funds Management at the same time. Since that time it has taken assets under management from $0.26 billion to approximately $1.46 billion at the date of this notice.

Growth in the business has come from the 2014 merger with KCL Property and acquisition of Investment Property Titles (which added approximately $826 million of assets) and continued establishment of new property syndicates and funds.

The strategic focus for the business is to:

- Increase assets under management through new syndications and multi-asset funds across a range of sectors (with both listed and unlisted funds to be developed); and
- As a result of increased assets under management, increase recurring management fee income.

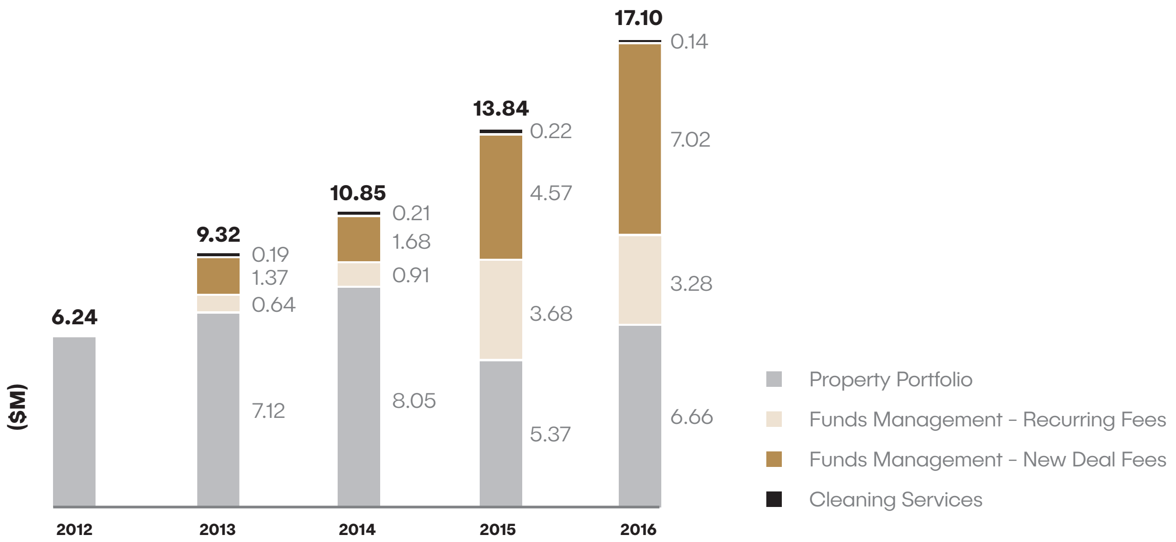
Augusta's past performance has shown an ability to deliver on the above strategy. That performance is detailed in the below table and accompanying graph. The below information has been derived from Augusta's audited financial statements contained within the last five annual reports.

	2012 ($m)	**2013** ($m)	**2014** ($m)	**2015** ($m)	**2016** ($m)
Net Revenue – Property Portfolio	6.24	7.12	8.05	5.37	6.66
Net Revenue – FM Recurring Fees	–	0.64	0.91	3.68	3.28
Net Revenue – FM New Deals	–	1.37	1.68	4.57	7.02
Net Revenue – Cleaning Services	–	0.19	0.21	0.22	0.14
Corporate & Administration Costs	(1.39)	(1.90)	(2.11)	(6.36)	(7.16)
Funding Costs	(1.77)	(2.03)	(2.66)	(3.09)	(2.93)
Unrealised Net Change in Value of Investment Properties	(1.38)	1.86	(2.19)	4.37	7.07
Profit / (Loss) and Total Comprehensive Income for the Year After Tax	(0.65)	5.44	1.99	10.39	13.52
Distributable Profit*	**3.64**	**4.97**	**4.63**	**4.86**	**5.68**

DISTRIBUTABLE PROFIT BY SEGMENT*	**2012** ($m)	**2013** ($m)	**2014** ($m)	**2015** ($m)	**2016** ($m)
Funds Management	–	0.91	0.98	2.82	3.26
Directly Owned	3.64	4.00	3.59	1.97	2.36
Cleaning Services	–	0.06	0.06	0.07	0.06

*After Tax

TRANSFORMATION OF AUGUSTA'S REVENUE PROFILE



Shareholders should also note that funds management fees increased by a further $750,000 per annum on 1 April 2016 with the commencement of Augusta Value Add Fund No. 1 Limited and a further $300,000 per annum on commencement of the Building A syndicate on 15 August 2016.

As the numbers above demonstrate, a key advantage of the move into funds management is the ability to grow earnings at a quicker rate than in the more passive property investment business. However, this does bring a risk of volatility in the business due to a reliance on upfront fees from new transactions. Augusta believes this volatility is likely to smooth out over the next 2 to 3 years as new funds are created and the recurring fees component of Augusta's revenue profile grows. However, if the capital realised from the Finance Centre sale is not able to be effectively used to create new funds through the warehousing of assets, underwriting of new transactions and seeding of new funds, there is a risk that earnings will have a degree of volatility.

While balance sheet capacity and market conditions will affect the ability to execute the funds management strategy, also key to execution will be the capability and experience of Augusta's personnel.

In addition to revenue growth from the funds management business since 2012, Augusta has also expanded in respect of personnel and experience in that time and will continue to expand as necessary.

Augusta's senior staff of Mark Francis, Bryce Barnett, Phil Hinton, Simon Woollams and Hayden Bryant have significant experience within the property and funds management industries.

At the time of the acquisition of Augusta Funds Management in 2012, Augusta had 6 staff. Augusta's resource level has now grown to 27 employees across its Auckland and New Plymouth offices. The finance team has grown from 2 to 10 during that time. There are also 3 asset managers and a development manager who are supported by property and facilities management from Bayleys Property Services. Capability in skills has expanded in the past year with the addition of an in-house legal counsel as well as a compliance manager.

The existing resource base has capability to manage increased assets under management. No new staff were required for management of Value Add Fund No. 1 or the new Building A syndicate. However, the increase in staff since the acquisition of Augusta Funds Management in 2012 shows a willingness to increase the resource base where necessary.

PROPERTY SPECIFIC RATIONALE FOR THE SALE

- The Finance Centre is currently in a very saleable position with key anchor tenants all with strong covenants on long term leases, including Qantas, Wilson Parking and the Countdown Metro Supermarket.
- The offer is above market valuation and generates an approximate increase in the net asset value equivalent to 4 cents per share after incurring disposal costs and capital expenditure. The most recent valuations of the Properties (obtained by Augusta as at 31 March 2016) is summarised in the executive summaries of CBRE's valuation reports which are enclosed with this notice.
- A market rental yield of 6.54% is very competitive in the current market.
- Weighted average lease expiry (WALE) is currently strong at 6.1 years across the consolidated Finance Centre.
- Occupancy is currently 97%.
- Major tenant interruption is expected in the future with the potential tunnelling under Albert Street leading to the loss of the ramp access onto Albert Street from the Car Park.
- The large number of commercial office spaces under development is expected to increase direct competition.
- Major capital expenditure will be required to be spent over the next few years including cooling tower and chiller replacements. Historically a capex buffer has been retained to cover such business as usual capex and accordingly this has led to a lower dividend pay-out ratio as this capex has been funded from operating earnings.
- Significant refurbishment has been completed in recent years which has attracted a variety of tenants to the Finance Centre and at the same time increased the effective market rentals. Further refurbishments will be required in the future to either retain or attract tenants.
- There is upcoming expiry risk for the Finance Centre. Key upcoming tenant renewal/ expiry risk is:

YEAR	ANNUAL RENT	KEY TENANTS EXPIRING
2017	591,675	Just Workout, Daikoku Restaurant, Castleford Media
2018	474,465	SMX, Dave Clark Design Associates
2019	848,479	Warehouse Stationary, Chelmer, KUONI
2020	669,883	Qantas Airways (3 Floors)
2021	513,527	Lollipops Educare
2022	564,895	Foster Moore, Figured, NZ C& J
2024	715,767	General Distributors, NZ Racing Board
2025	1,024,067	Wilson Parking
2026	376,240	Wang C, Qantas Airways (1 Floor)
2040	626,340	Robert Jones Holdings

TABLE 1: PROPERTY DETAIL

This table below illustrates the key property financial information for the four titles that make up the Finance Centre.

	SALE PRICE (JUNE-16)	SALE PRICE (CAP RATE BASED ON MARKET RENT)[4]	VALUATION[5] (MAR-16)	MARKET RENTAL (VALUATION)	OCCUPANCY (JUNE-16)	WALE (JUNE-16)
	$000	%	$000	$000	%	Years
19 Victoria St West	30,000	7.24%	28,800	2,171	94%	3.1
Finance Centre Car Park	30,000	6.17%	28,700	1,851	100%	11.1
Finance Centre Podium	11,000	7.80%	9,900	858	95%	4.1
Podium Retail Title	25,000	5.60%	21,500	1,399	100%	5.5
TOTAL	**96,000**	**6.54%**	**88,900**	**6,279**	**97%**	**6.1**

Also enclosed with this notice of meeting is the executive summary of CBRE's valuation report on each of the Finance Centre properties as at 31 March 2016, which provides further information on the valuation metrics. The full valuation reports are available on request from Augusta.

[4] This details the rate of return that the expected market rental for the Properties represents as a percentage of the purchase price. The market rental is different from the actual rental payable and is based on the identified market rent in CBRE's valuation reports.

[5] The valuation reports were prepared by CBRE as at 31 March 2016. They identify the market value of the Properties using a capitalisation of income approach and a discounted cash flow approach. The key valuation metrics and assumptions are identified in the executive summaries of CBRE's valuation report which are enclosed with this notice.

TABLE 2: FINANCIAL SUMMARY OF THE FINANCE CENTRE SALE

This table illustrates the net capital gain on sale as a result of selling the Finance Centre for $96,000,000. The forecasted net gain of $3,390,000 reflects disposal costs and capital expenditure. Disposal costs of $2,500,000 (including agency and legal costs) have been reduced from the sale price.

Valuation at 31 March 2016	$88,900,000
Sale Price	**$96,000,000**
Less disposal costs:	
• Queen City Law fee	$2,500,000
• Contingency for other sale costs (e.g. reports required to be provided during due diligence)	$50,000
Less required capex spend	$1,160,000
Effective net sale price	**$92,290,000**
Net Gain on sale of Property	**$3,390,000**
Capital gain on current book value (%)	3.8%
Cap Rate on Sale Price (based on market rent)	**6.54%**

The net present value (NPV) of the effective net sale price for the Finance Centre sale transaction (taking into consideration future rental income while the Properties are held ahead of their settlement dates and the deferred settlement periods) is actually $93.2 million.[6] At future report dates, properties held for sale will be valued using a discounted cash flow method. Any movements in the valuation will be reflected as an unrealised gain /loss in the Statement of Financial Performance. It is expected that the valuation movements will be minimal as Augusta intends to use a discount rate similar to the cap rate of the Finance Centre properties.

DEPRECIATION RECOVERY

Approximately $15 million of depreciation has been claimed over the period of ownership which dates back to December 2006 (in the case of the Podium from August 2008). If all of this amount was recoverable by the IRD, there is a maximum exposure to Augusta of $4.2 million (or 4.8 cps). However, Augusta does not believe the full amount is recoverable and has currently provisioned for approximately $1.4 million as a deferred tax liability in its balance sheet. Augusta is obtaining updated valuations of the depreciated assets to confirm this position.

IMPLICATIONS OF A SALE OF THE FINANCE CENTRE

In summary, the key implications of a sale of the Finance Centre are:

- The inability to claim depreciation on building fit-outs in the future. Depreciation creates a timing difference in respect to tax obligations by reducing the net taxable income derived during the period of ownership, and a sale will lead to higher effective tax rates in the future. Whilst Augusta has indicated an intention to hold property directly in the future it may only be for a short term basis or 'warehousing' type of arrangement and no depreciation will likely be claimed as it may trigger a depreciation recovery on divestment.
- Any future capital gains derived from holding property are not likely to be derived if a property is held for a short period prior to either a potential new syndication or the establishment of a new fund initiative. Any capital gain will be taxable due to the intention of resale on acquisition and/or may create further tainting issues.

[6] Using a discount rate of 7.25%. Rental rates and occupancy has been assumed constant throughout the settlement period. The NPV calculation excludes benefit from lower interest expense as debt is repaid or any returns from reinvestment of surplus funds.

- The loss of a contracted and recurring income stream. This will lead to increased volatility in earnings during the interim period until earnings are restored by an increase in recurring earnings from funds management initiatives.
- The staggered nature of the transaction allows the necessary time to identify new opportunities with the benefit of an unconditional deal.
- Depreciation no longer provides a meaningful tax benefit as Augusta is no longer a portfolio investment entity. If dividends cannot be fully imputed, then additional withholding tax will need to be withheld from a shareholder's dividend if a shareholder does not hold a withholding tax exemption certificate.

FUTURE BALANCE SHEET

In line with the strategic direction set out above the future balance sheet is likely to include a combination of the following:

- **Cash reserves** – the Directors wish to hold a portion of the capital gain as cash on hand. Due to expected volatility in earnings a reasonable level of cash reserves will assist with ensuring a consistent distribution level to Shareholders, as well as ensuring that the Company has sufficient working capital cover. The Company also requires some further working capital to make the necessary property deposit payments in respect to potential new property offers.
- **Directly held property** – the Directors intend to hold some assets which are suitable for future syndication product or fund initiatives. Such investment, albeit short term will generate a running yield but also allow management to control the timing of new offerings to the market. As noted above on page 7, Augusta has and will acquire a property (such as 36 Kitchener Street) where negotiations with the relevant vendor requires acquisition prior to being able to establish a fund or syndicate. The asset can then be held while, for example, other properties are then acquired and a fund established to hold all properties. In the interim though, the rental form that property provides income and is typically accretive for Augusta's earnings.
- **Balance sheet capacity** – to enable the potential underwriting of new offers to investors within the funds management business. This provides certainty for investors that an offer is to proceed. The potential underwrite fees derived are generally equivalent or better than if invested directly in an investment property over the relevant period of the underwrite commitment. In the past Augusta has had to call on other external parties as underwriters due to inadequate balance sheet capacity and potential fees have been foregone. As noted above on page 7, the underwrite fees paid to third parties (by the relevant syndicate or fund) have equalled $2.751 million over the previous two years.
- **Goodwill and Intangibles Assets** – these assets relate to the existing funds under management and effectively correlates to the underlying management contracts. These assets cannot be revalued for accounting purposes and reflected in Augusta's balance sheet. From an accounting perspective, in the annual statutory financial statements goodwill is currently valued at $8.99 million and intangibles at $7.39 million, for a total value of $16.38 million. The lower end of the recent independent valuation of the funds management business (which essentially values goodwill and intangibles) was $28.0 million. Accordingly, the true net asset position of the Company might not necessarily be reflected in the annual statutory financial statements.
- **New fund initiatives** – Augusta as a result of the sale of the Finance Centre will have financial resources to launch new fund initiatives. Augusta is also willing to both co-invest and seed such fund initiatives.
- **The acquisition of other fund managers** – should Augusta identify potential opportunities to acquire other fund managers (where such acquisitions are consistent with its strategic plan), the capital provided by the sale will provide financial resource to fund such acquisitions.
- **Gearing Ratio** - the Directors view a long term gearing ratio target of 35%. This level may however peak for a period of time. An example being where a material underwrite position is taken up and/ or a property is 'warehoused' for a short period of time with a defined exit strategy. The Company constitution states that the external bank debt cannot exceed 50% of the total asset value. The total asset value is based on the reported balance sheet, not the market value of such assets (for example, the recent valuation of the funds management business is unable to be fully reflected in the balance sheet).
- **Future bank facilities** - management is working the ASB Bank on a new set of loan covenants to allow the necessary flexibility to move quickly on potential deals, subject to the requirements of the Company's constitution. A review of the loan covenants is required as the future balance sheet will differ materially from the current balance sheet. The future balance sheet will also evolve over time and could be very different year on year. ASB has noted they are supportive of the future strategic direction.

Augusta has recently restructured its bank facilities following the recent loss of PIE status. All external debt to ASB is now held by Augusta Capital Limited directly, with all debt previously owed to ASB by Augusta Funds Management Limited effectively transferred to Augusta Capital. As a result of that, Augusta has been able to negotiate the following new banking covenants (which it considers are a positive):

- Loan to value ratio of 55% (against real property) – up from 45% currently to assist in funding the payment of deposits on contracts for properties that will be syndicated or held as part of a fund;
- Net rental interest cover of greater than 1.75 times;
- Weighted average lease expiry of greater than 3 years;
- Group EBITDA[7] Interest Cover of greater than 2.75 times;
- Augusta Funds Management EBITDA of greater than $2.0 million.

The above covenants will be re-negotiated as the Properties are progressively sold.

[7] EBITDA means earnings before interest, tax, depreciation and amortisation.

TABLE 3: PRO FORMA BALANCE SHEET

This table illustrates the group balance sheet of Augusta Capital Limited as at 31 March 2016 and the pro-forma balance sheet for the upcoming financial years through to 31 March 2020:

FORECAST BALANCE SHEET

	Current ($m)	FY17 ($m)	FY18 ($m)	FY19 ($m)	FY20 ($m)
Direct portfolio	90.0	62.3	62.3	37.3	–
Co-investment/warehousing	6.0	6.0	6.0	22.1	59.4
Intangibles	16.4	16.4	16.4	16.4	16.4
Deposits	7.9	–	–	–	–
Cash Reserves	7.2	11.1	11.1	11.1	11.1
Other/Working Capital	3.5	4.9	4.9	4.9	4.9
Total assets	**131.0**	**100.7**	**100.7**	**91.8**	**91.8**
Debt	43.1	8.9	8.9	–	–
Other	5.9	5.9	5.9	5.9	5.9
Total liabilities	**49.0**	**14.8**	**14.8**	**5.9**	**5.9**
Net assets	**82.0**	**85.9**	**85.9**	**85.9**	**85.9**

In the above pro-forma balance sheet, each line item has the following meaning:

- Directly held investment property portfolio: property assets which are directly owned by Augusta Capital Limited and held on balance sheet.
- Co-investment/warehousing: co-investment represents an investment in a new fund vehicle. Warehousing represents a short term investment in a direct property asset before transition or sale into a new vehicle established by Augusta.
- Goodwill and Intangibles: goodwill relates to the acquisition of the funds management businesses and premium paid over book value. Intangible assets relate to the underlying management contracts purchased.
- Deposits paid: this relates to deposits paid on properties which will be settled into new schemes. The deposits will be refunded on settlement.
- Cash reserves: cash at bank and term deposits.
- Other/working capital: current assets including accounts receivable, prepayments and fixed assets.
- Debt: external bank borrowings.
- Other liabilities: current liabilities including accounts payable, accruals and deferred tax liability.

The balance sheet above is a pro-forma illustration reflecting the sale of the Finance Centre and does not include future profit / dividends impact on Net Assets

It has been assumed that proceeds from the Finance Centre sale are used to repay debt. Once debt is fully repaid proceeds are used to reinvest / warehouse assets

The above balance sheets are based on the accounting value of the intangible assets and goodwill. Those assets cannot be revalued (unlike tangible investment property) and are tested for impairment at both interim and full year reporting dates. Therefore the future gearing levels may be lower from an effective 'market value' assessment.

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