

Onterran Limited (ASX:OTR)

ASX ANNOUNCEMENT

CHAIRMAN'S ADDRESS AT AGM

Please find attached the Chairman's address which will be delivered at the Company's Annual General Meeting, to be held in the Oxley Room, Christie Corporate Centre, Level 1/320 Adelaide Street, Brisbane QLD 4000 on Tuesday, 29 November 2016 at 11:00 am (AEST).

For further information contact:

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Company Secretary
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Welcome to the 2016 Annual General meeting of Onterran Ltd.

Following a disappointing 2016 financial year we have moved quickly to complete a transformative transaction for the company, being the acquisition of significant assets at Couran Cove on South Stradbroke Island in Queensland. This acquisition is significant both for the quality of the assets, and for their short and long term income generating capacity. I will discuss our progress on Couran Cove, and our existing businesses in some detail.

Couran Cove Acquisition

To fund the acquisition, Onterran issued redeemable convertible preference shares (RCPS) to the value of \$22.6m. The RCPS are secured against a mix of completed apartments owned by an Onterran Ltd subsidiary and are convertible to ordinary equity at 55 cents. Over the course of the acquisition, the mix of assets acquired varied from the original estimates provided, and the overall cost of the transaction increased accordingly.

Post transaction completion, much work has been undertaken. The acquisition, at the price paid, was achieved as the resort had become run down for a period of time prior to acquisition. As previously advised, the resort is a very significant property with capital works originally said to have cost \$300m at the time of construction.

Onterran's opportunity is to bring back the resort's former glory, updated for today's market. To this end, by December 8th over 70 of the apartments acquired will have been renovated, restoring them to a very high standard. The resort's two main swimming pools have been renovated, as has the fine dining restaurant, tavern and coffee shop. A 110 seat passenger ferry has been acquired to transport residents in comfort, overcoming a long held view that the resort was difficult to get to, and in conjunction with the resort's management partner, major progress has been made in presenting the resort professionally and improving the service and offering for guests.

These enhancements have delivered two key initial aims. Firstly, bookings for the key December/January period as of today are already 1,000 room nights higher than the comparable period last year. As this is the peak booking period for Christmas and school holidays, the projection is towards a 4,000 room night increase for 2016/2017 as against 2015/2016. This is extremely pleasing and the booking interest for periods beyond January is also well ahead of the corresponding period last year.

This is driving increased real estate values for all owners at the resort, of which Onterran Ltd is the largest. For example, in 2006 it was common for a one bedroom apartment to sell for around \$350,000 at Couran Cove. Following the GFC and subsequent liquidation of the resort, this number fell to as low as \$110,000. Credible indications are that with improved product, resort renovation and better trading conditions at the Gold Coast generally, that the market value of these apartments is already restored to around \$250,000 to \$275,000 per apartment based on work already done.

This value enhancing pattern repeats across each class of apartment at Couran Cove leading us to firmly believe that the acquisition will achieve both its short term and long terms goals for shareholders. Marketing of the smaller apartments, studios and one bedroom's, begins in earnest during the Christmas period once the first wave of renovation is fully complete. For already renovated apartments, there are contracts underway that are shortly expected to be unconditional totaling around \$2.0m with settlements expected December/January. In respect of existing stock, we could not be more pleased with the increased occupancy being achieved and the widespread interest in acquiring the apartments at a fair market price.

With regard to the undeveloped land, strong progress has been made on two fronts.



Our previous announcements mentioned a large tract of oceanfront land with long term development prospects. This land is situated on a surf beach at South Stradbroke, with views to the Gold Coast, but totally isolated as most of the island is a national park. It is a genuinely world class scenic location.

This area is currently approved for camping activities, and was used as such until around ten years ago. We have received town planning advice that this approval includes the right to have cabins on the site for up-market camping known as “glamping”. These cabins will occupy sites of extraordinary beauty and in our view will complete the perception change for the resort as a whole. We are currently determining how many cabins can be built on the site. The cabins can be built to be totally self-sufficient, and can be built economically. This is a premium product that will generate a long term income stream for Onterran Ltd on a very high yielding basis. As stated, these cabins will be set in a world class location which if the land was freehold rather than leasehold, would be of extraordinary value. The lease of the land is for a rolling 30 year period, with automatic extensions. We are very excited about this opportunity and are planning on bringing forward the start date for this project to early next year subject to regulatory requirements.

We have also made rapid progress on design and construction of cabins for the Eco precinct at the resort. As advised there are 195 Eco cabins to be built on vacant land at the resort. We have completed design and pricing and have a product that will fit well into the precinct and in our view will both sell and rent well. Our selling and rental agents have been an integral part of the design process and with the addition of a large ferry, the largest single obstruction to long term living at Couran Cove has been removed. Based on the strength of market, and the pricing achieved for cabin construction on site, we wish to accelerate the development process in the Eco precinct. At the Gold Coast, we are coming closer to the 2018 Commonwealth Games, and Couran Cove feels it can strongly benefit from mid-2017 from both increased occupancy and market strength brought on through this event.

With respect to the other development sites owned, town planning continues, with product design taking shape. These projects will take a little more time, but at this time, they remain excellent assets for future development.

Due to the early achievement of key goals at Couran Cove the Board has determined to bring forward the Eco development project and the oceanfront project mentioned earlier today.

Many existing shareholders requested to participate in the RCPS but were unable to do so because the RCPS are not listed on the ASX or that the shareholder did not qualify as a sophisticated shareholder under the Corporations Act. The Board considers that these shareholders should be able to participate in this project and accordingly will provide details of a share purchase plan tomorrow. The Share purchase plan will be set at 38 cents per share, being a 5% discount to current market price. The Board will consider underwriters for the share purchase plan. The Board believes the raising to be for an earnings accretive project that will be for the long term good of all shareholders. Formal documentation of the share purchase plan will be on ASX tomorrow.

Finally, and due to market evidence in respect of the Couran Cove assets, a material positive revaluation from acquisition price will be booked for the half year to 31 December 2016. This amount is currently being determined via independent valuations of various assets taking into account sales currently being completed. As the process completes, we will announce this in more detail.

As a company, we are extremely pleased with our initial progress on this significant asset.

Bloomer Constructions

As previously announced, Bloomer Constructions has been working through a difficult period. A small number of large contracts were executed over a five month period following which significant contractor and raw-material cost increases came into effect. This left Bloomer with fixed price contracts in a rising cost environment and led to losses in 2016. The group responded by announcing that it was moving away from larger apartment projects to concentrate on smaller, shorter time period projects, along with low risk government contracts and longer term maintenance work. We also

determined to seek a larger number of small joint ventures with developers which in Onterran's time of ownership have been the strongest part of the Bloomer business.

In executing these changes, we have lowered Bloomer's 2017 revenue target significantly, with no new large apartment projects being taken on since May 2016. Along with this, we have cut overhead by around \$3.5m as larger projects complete and are not being replaced by new similar projects. This cost reduction has come at a one-off cost which will effect first half performance. The projects in question that caused the losses are all now between 95 and 100 percent complete, with most finishing before 31 December 2016. We have continued to suffer losses in completing these projects. With regard to newer projects, the position is more positive. The more recent lower revenue, higher margin projects are producing a solid margin, albeit on a lower base. This, along with the excellent work being done at Couran Cove by Bloomer gives us confidence that this subsidiary will return quickly to profitability.

In addition, Bloomer has identified two small but very profitable joint ventures to be undertaken in 2017, which are both well located and low risk. We have been extremely selective, rejecting a large number of opportunities and selecting only the ones viewed as low risk with excellent location and simplicity of delivery. As these projects move from conditional agreement to formal contract we will formally advise the market. Proceeds of the share purchase plan may be used for these or similar projects.

Whilst it has been a difficult time in this subsidiary, the team at Bloomer remains committed, is still providing an excellent service to clients and is working well towards the performance required of them on a long term basis.

McGrath Modular

Where Bloomer unfortunately had a profitless boom, McGrath is working through a situation where its gross margin on jobs remains solid, but general activity in Western Australia has been low. McGrath is in process of successfully completing its large project for Pindan, a \$25m housing project on time and on budget. Its Meadowbrooke retirement project is ramping up as the developer increases marketing activity and remote work for mining is starting to ramp up again after a very quiet period. Most of McGrath's housing is built in remote mining areas after being manufactured in Perth and delivered to site. The general increase in commodity prices has definitely increased activity in remote regions, and whilst we do not expect anything like the previous boom, we welcome a much higher level of tendering which has come about as a result of higher resources sector activity. Evidence of the return of resources activity is also being seen at our fifty six room King Village accommodation asset in Western Australia. Occupancy has increased significantly in recent months and although not hugely material to the group it's satisfying to see this non-core asset now generating cash which also aids our previously announced discussions with regard to a sale of the facility.

McGrath is also seeking to become more relevant to city clients with development of a Granny Flat product, which can be between 22 and 40sqm and be manufactured and placed in a larger back yard for extra rental for a homeowner or housing an extended family. We see a need for this particularly in the Perth market and are preparing for a product launch.

Overall, after a difficult period, we see our Couran Cove project as travelling extremely well, and our construction subsidiaries improving after differing challenges in the last twelve months.

We thank shareholders for their continuing support.

