Hotel Investment Strategies, LLC

9 Coronation Avenue
Mosman, NSW 2088

M: +61 466 017 823

WhatsApp +1 973 723 0423

Sunday, 18 October 2020

Mr. James Mawhinney
Managing Director
Mayfair 101
Level 27, Level 35 Collins Street
Melbourne, Victoria 3000

Re: Commentary on the Potential for Dunk Island & Mission Beach to Become one of the Most Successful Resort Mixed-Use Developments in Australia

Dear James,

I have the pleasure of submitting this brief report on my critique of the assumptions and analyses used by your team in evaluating the market and financial feasibility of developing a resort mixed-use development (RMXD) incorporating Dunk Island and a large number of real estate assets in Mission Beach in Far North Queensland.

Engagement

I was engaged by your company in August 2020 to prepare an Information Memorandum (IM) on your Dunk Island/Mission Beach project suitable for presentation to lenders. The IM provided prospective lenders with a full, accurate, and attractive overview of the status of your project which can be used to attract debt finance to service the project's immediate needs of preserving equity over the next 12 months.

As an adjunct to the initial engagement, this report provides you with an analysis of the market and financial feasibility that you have prepared across three specific components of your project:

- Dunk Island
- Subdivision Sales; and
- Mainland Development

This report provides my comments and assessment of the work which you have undertaken. It considers preliminary market and financial feasibility projections made and recognizes that further data collection and analyses be undertaken to refine the opportunities arising in the region.

Process Undertaken

My work involved a site inspection of Dunk Island and several real estate assets, including vacant land, residential properties for short and long-term rental, backpacker accommodation, and commercial facilities in the four villages of Mission Beach; South Mission Beach, Wongaling Beach, Mission Beach, and Bingil Bay. It also included a tour of the regions' (Cassowary Coast) major tourist attractions as well as the cities of Cairns and Townville, the major cities through which the majority of international and domestic tourists will pass on their way to the Cassowary Coast.

My work also included a critique of the reasonableness of assumptions and analyses used by your team about future development opportunities for the RMXD. This involved examining market and financial models, supporting reports and analyses, and questioning the preparers of these models and reports. Given the "anchor" role that Dunk Island will have on the successful development of the entire region, my review concentrated on the opportunities on the island. The redevelopment of Dunk Island will act as a major catalyst for mainland real estate wilt potential price increases of 25% to 50%.

Background Research & Experience

I have longed held the view that Dunk Island and neighboring Mission Beach have the potential to become one of the most iconic and successful resort mixed-use developments (RMXD) in Australia, if not the Asia-Pacific region. Without equivocation, I believe that Dunk Island and Mission Beach contain the essential ingredients for a successful RMXD. It is one of the best ocean-front sites of sufficient size and landholding on the Queensland Coast for a development of this kind.

I have held this view since I was commissioned by Trans Australia Airlines (TAA) in the 1980s to evaluate the highest and best use of the resort islands owned by the company, including Dunk Island, and again when I completed the market and financial feasibility for the Elandra Resort in South Mission Beach for Mr. Siegfried Beil, the founder of Beaufort Hotels and partner with Adrian Zecha in Regents Hotels.

Over the past 40 years of my career in the hotel, tourism, and leisure industries, I have had the good fortune to visit and critically evaluate some of the best known and most successful RMXDs in the world, including Kaanapali, Maui in Hawaii, Grand Hyatt Kauai Resort & Spa in Kauai, Hawaii and Carmel Valley Ranch south of San Francisco.

Featuring multiple revenue-producing land uses, significant physical and functional integration of project components, and development in conformance with a coherent plan and scheme, these successful RMXDs encompass a wide array of year-round amenities and services such as boutique hotels operated by high-end international operators, hotel-branded residences, a range of complimentary accommodations, retail outlets, marinas, golf courses, water sports, fishing, hiking trails, and health spas.

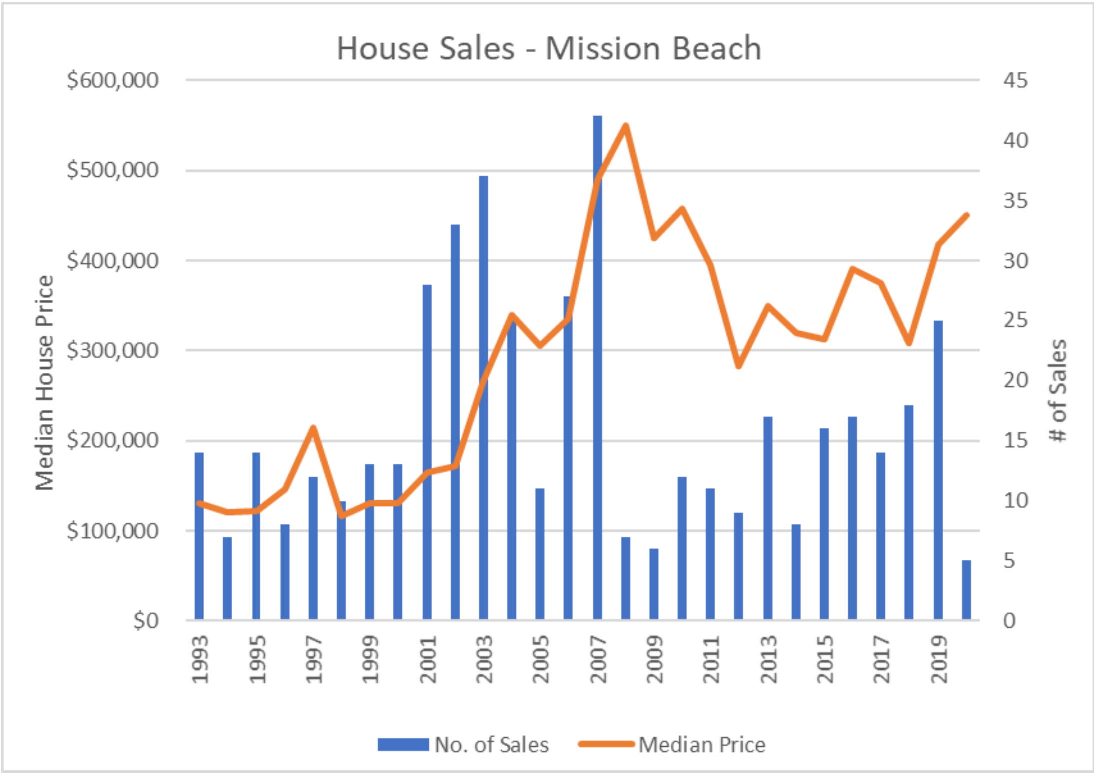
A distinguishing feature of these resorts is that the signature hotel acts as an anchor in much the same way as certain up-market retail stores act as a major anchor tenant in many of Australia's more successful shopping centers.

The planned island resort on Dunk Island will have a major role in the development of mainland properties in the same way that the development of the mainland properties will have a significant impact on the island's resort and branded residences and facilities. Each component is designed to complement the others, thus providing the integrated resort environment.

Subdivision Sales

The sale of surplus vacant land not considered core assets is an integral part of the proposed restructuring. It is proposed that several parcels of land be subdivided optimizing immediate land sales but retaining core parcels of land for future development. I have reviewed the average price per vacant and residential lot and compared them to the number of sales and their median price achieved in the four villages in 2019 and year-to-date August 2020 and believe they are achievable.

Address	Subdivision Lots	Average Price of Realization
Lot 2 Explorers Drive (Lugger Bay)	12 lots	$700,000
Lot 4 Wylie Rd	2	$350,000
28 Seafarer Street	2	$180,000
32 Wongaling Beach Road	4	$200,000
Lot 999 Seaview Street	6	$180,000
40 Mitchell Street	1	$200,000
Lot 13 & 14 Porter Promenade	1	$250,000
24 Bicton Close	2	$250,000
Lot 105 Dickinson Street	16	$150,000
95-101 Banfield Parade 'Bali Hai	50	$150,000



Source: Property Data Solutions Pty Ltd 2020

It is proposed that Lot 2 Explorers Drive (Lugger Bay) be subdivided into 12 lots with an average price of $700,000 for an average lot size of 684,000 square meters. There appear to be few comparable sales, but I believe the price is achievable once the resort on Dunk Island is opened.

I conclude that the assumptions and analyses used by your team in evaluating the potential for subdivision lots are reasonable and achievable.

Dunk Island Development

Subdivision

With about 140 hectares of freehold land on Dunk Island, I foresee large-scale replanning of the island setting the footprint to subdivide the property into 172 discreet parcels. This will provide opportunities for the resale of freshly titled properties and the need to refinance the land retained for further development

The immediate subdivision includes 50 villas with an average selling price of $650,000, resulting in a net profit after construction, marketing fees, agent's commissions, and contingencies of

$21.6 million. With aggressive and targeted marketing, I believe the average selling price is achievable over two years.

Subdivision Sales Proceeds $14,190,000

Retained Land Refinance $7,334,250

Hotel Resort & Branded Residences

It is envisaged that a 50-room resort with 30 branded residences will be developed on Dunk Island. It will be managed by an international operator such as Azula International, Aman, Alila, Bvlgari, Banyan Tree, Four Seasons or Ritz-Carlton, etc., competing directly with Qualia on Hamilton Island. Potential source markets for the branded residences include China, the US, Australia, Taiwan, Japan, Hong Kong, and Singapore.

The 50-room resort will compete directly with the highest rated resort hotels in Australia. It's central role in creating an exclusive image for the entire development, both on the island and the mainland cannot be overestimated. I believe the resort should be designed with services and amenities that command average daily rates in the order of $1,500 per night with additional services, such as food & beverage and spar facilities commanding almost $600 per night. EBITDA less Replacement Reserve for the resort is projected at $9.9 million or 37% of total revenue in its first year of operation, 2023. My preliminary operating proforma for the resort is provided in Appendix A to this covering letter.

Based on my review of the work completed by your team on the potential for villa sales on Dunk Island, I conclude that the assumptions and analyses used by your team in evaluating the potential for subdivision lots are reasonable and achievable.

Mainland Development

As previously noted, the planned island resort on Dunk Island will have a major role in the development of mainland properties in the same way that the development of the mainland properties will have a significant impact on the island’s resort and branded residences and facilities. Each component is designed to complement the others, thus providing the integrated resort environment. As a result, no real estate asset can be viewed in isolation due to the synergies created by the physical and functional integration of all components of the proposed development.

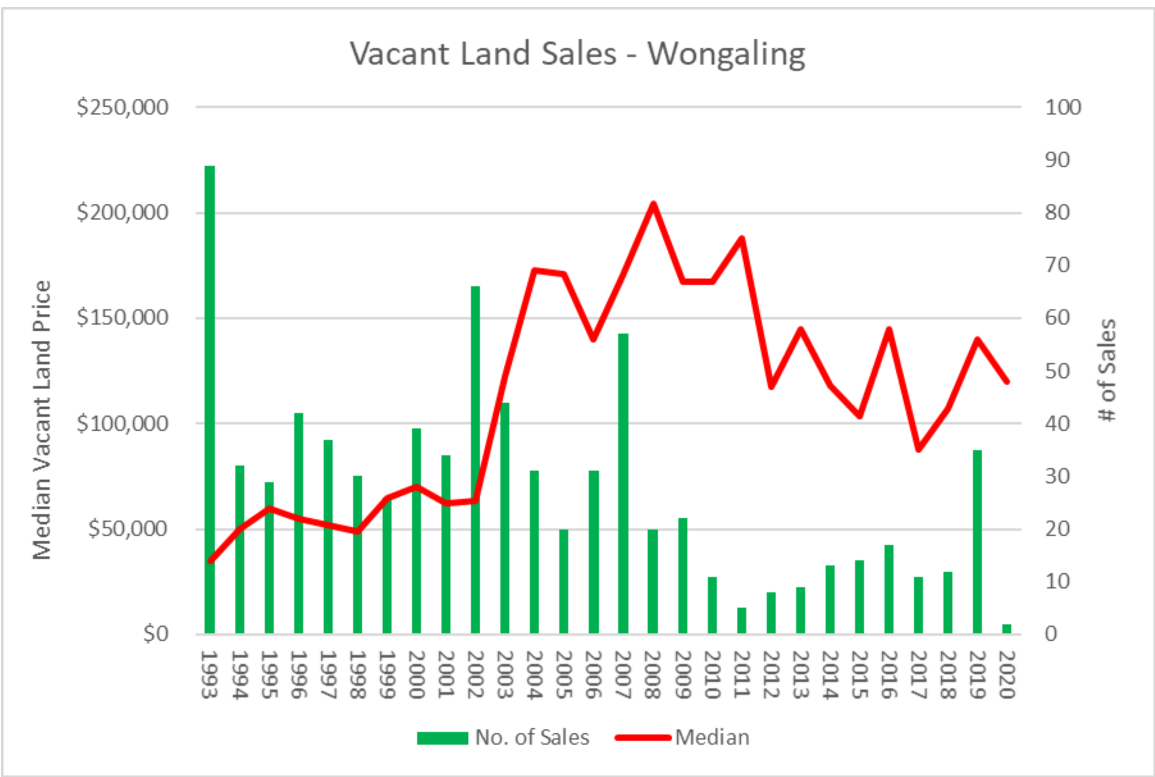
For example, a mainland hotel facility may be developed and jointly managed and operated with the resort hotel on the island, providing economies of scale and other financial and marketing synergies.

Three mainland sites will be developed: Emerald Harbor, Central Business District & the Entertainment Precinct. The average lot price of $250,000, and $350,000 for the Emerald Harbour, and the Entertainment Precinct appear reasonable given the likely appreciation of real estate on the mainland due to the launch of Dunk Island.

It is proposed that the Central Business District development be subdivided into 55 lots with an average price of $600,000 for an average lot size of 1,200 square meters. While there appear to be few comparable sales, I believe the average price will be greatly influenced by the proposed development on the remaining 117 hectares in this location.

The strategy within the mainland precinct aims to realize rezoned and subdivided blocks whilst refinancing holdings are enhanced through the process.

Development	**Subdivision Lots**	**Revenue**
Emerald Harbor	50	$11,250,000
Central Business District	18	$9,900,000
Entertainment Precinct	18	$5,250,000



Source: Property Data Solutions Pty Ltd 2020

Based on my review of the work completed by your team on the potential for subdivision sales derived from the three development sites on the mainland, I conclude that the assumptions and analyses used by your team in evaluating the potential for subdivision lots are reasonable and achievable.

Despite its enormous potential, the region is faced with major challenges of connectivity and the high cost of construction and operations. While these are major challenges, I believe that a master-planned integrated resort encompassing island and mainland facilities provides enormous potential for developers and investors with a medium to long-term outlook.

Maintaining the flexibility to build and sell what the market demands are critical to the success of a mixed-use master-planned community. It is important to allow for the time necessary to achieve build-out if market conditions change and the build-out takes longer than anticipated.

The real money is in the real estate: although resort development invariably includes on-site improvements, such as golf courses and marinas, a close look at the economics of owning and operating resorts shows that the real money for master developers during the first 10 years of the resort's development comes from real estate sales, not resort operations.

Based on my critique of the assumptions and analyses used by your team in evaluating the market and financial feasibility of developing a resort mixed-use development (RMXD) incorporating Dunk Island and a large number of real estate assets in Mission Beach in Far North Queensland, I conclude that the assumptions and analyses used by your team in evaluating the potential for subdivision lots are reasonable and achievable.

Respectfully submitted,

Ross Woods

Ross Woods
CEO
Hotel Investment Strategies

Appendix A - Hotel Revenue and Expense Operating Model for the Dunk Island Resort

Dunk Island Resort	Base Year 2023				Base +1 2024				Base +2 2025			
Number of Rooms	50				50				50			
Occupancy	70.0%				72.0%				74.0%			
Average Rate	$ 1,500.00				$ 1,530.00				$ 1,560.60			
Days Open	365				365				365			
Rooms Occupied	12,775				13,140				13,505			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 19,163	72.2%	$ 383,260	$ 1,500.04	$ 20,104	72.3%	$ 402,080	$ 1,529.98	$ 21,076	72.4%	$ 421,520	$ 1,560.61
Food	$ 5,787	21.8%	$ 115,740	$ 452.99	$ 6,029	21.7%	$ 120,580	$ 458.83	$ 6,279	21.6%	$ 125,580	$ 464.94
Beverages	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Other Operated Departments	$ 1,278	4.8%	$ 25,560	$ 100.04	$ 1,335	4.8%	$ 26,700	$ 101.60	$ 1,394	4.8%	$ 27,880	$ 103.22
Business Center	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Additional Oper Dept 2	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Additional Oper Dept 3	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Miscellaneous Income	$ 319	1.2%	$ 6,380	$ 24.97	$ 333	1.2%	$ 6,660	$ 25.34	$ 347	1.2%	$ 6,940	$ 25.69
Total Revenue	$ 26,547	100.0%	$ 530,940	$ 2,078.04	$ 27,801	100.0%	$ 556,020	$ 2,115.75	$ 29,096	100.0%	$ 581,920	$ 2,154.46
Departmental Expenses												
Rooms	$ 4,471	23.3%	$ 89,420	$ 349.98	$ 4,645	23.1%	$ 92,900	$ 353.50	$ 4,825	22.9%	$ 96,500	$ 357.28
Food & Beverages	$ 3,449	59.6%	$ 68,980	$ 269.98	$ 3,571	59.2%	$ 71,420	$ 271.77	$ 3,696	58.9%	$ 73,920	$ 273.68
Other Operated Departments	$ 447	35.0%	$ 8,940	$ 34.99	$ 464	34.8%	$ 9,280	$ 35.31	$ 482	34.6%	$ 9,640	$ 35.69
Miscellaneous Income	$ 128	40.1%	$ 2,560	$ 10.02	$ 132	39.6%	$ 2,640	$ 10.05	$ 136	39.2%	$ 2,720	$ 10.07
Total Departmental Expenses	$ 8,495	32.0%	$ 169,900	$ 664.97	$ 8,812	31.7%	$ 176,240	$ 670.62	$ 9,139	31.4%	$ 182,780	$ 676.71
Departmental Profit	$ 18,052	68.0%	$ 361,040	$ 1,413.07	$ 18,989	68.3%	$ 379,780	$ 1,445.13	$ 19,957	68.6%	$ 399,140	$ 1,477.75
Undistributed Operating Expenses												
Administrative & General	$ 1,533	5.8%	$ 30,660	$ 120.00	$ 1,591	5.7%	$ 31,820	$ 121.08	$ 1,650	5.7%	$ 33,000	$ 122.18
Information & Telecom Systems	$ 256	1.0%	$ 5,120	$ 20.04	$ 263	0.9%	$ 5,260	$ 20.02	$ 270	0.9%	$ 5,400	$ 19.99
Marketing	$ 1,022	3.8%	$ 20,440	$ 80.00	$ 1,062	3.8%	$ 21,240	$ 80.82	$ 1,103	3.8%	$ 22,060	$ 81.67
Franchise Fees	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Prop. Oper. & Maintenance	$ 1,150	4.3%	$ 23,000	$ 90.02	$ 1,193	4.3%	$ 23,860	$ 90.79	$ 1,238	4.3%	$ 24,760	$ 91.67
Utilities	$ 958	3.6%	$ 19,160	$ 74.99	$ 994	3.6%	$ 19,880	$ 75.65	$ 1,031	3.5%	$ 20,620	$ 76.34
Total Undistributed Expenses	$ 4,919	18.5%	$ 98,380	$ 385.05	$ 5,103	18.4%	$ 102,060	$ 388.36	$ 5,292	18.2%	$ 105,840	$ 391.85
Gross Operating Profit	$ 13,133	49.5%	$ 262,660	$ 1,028.02	$ 13,886	49.9%	$ 277,720	$ 1,056.77	$ 14,665	50.4%	$ 293,300	$ 1,085.89
Management Fees	$ 796	3.0%	$ 15,920	$ 62.31	$ 834	3.0%	$ 16,680	$ 63.47	$ 873	3.0%	$ 17,460	$ 64.64
Inc. Before Non-Oper. Inc. and Exp.	$ 12,337	46.5%	$ 246,740	$ 965.71	$ 13,052	46.9%	$ 261,040	$ 993.30	$ 13,792	47.4%	$ 275,840	$ 1,021.25
Non-Operating Income and Expenses												
Non-Operating Income	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Rent	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Property and Other Taxes	$ 796	3.0%	$ 15,920	$ 62.31	$ 812	2.9%	$ 16,240	$ 61.80	$ 829	2.8%	$ 16,580	$ 61.38
Insurance	$ 531	2.0%	$ 10,620	$ 41.57	$ 542	1.9%	$ 10,840	$ 41.25	$ 552	1.9%	$ 11,040	$ 40.87
Other Non-Oper Expense	$ 265	1.0%	$ 5,300	$ 20.74	$ 271	1.0%	$ 5,420	$ 20.62	$ 276	0.9%	$ 5,520	$ 20.44
Total Non-Oper. Inc. and Exp.	$ 1,592	6.0%	$ 31,840	$ 124.62	$ 1,625	5.8%	$ 32,500	$ 123.67	$ 1,657	5.7%	$ 33,140	$ 122.70
EBITDA	$ 10,745	40.5%	$ 214,900	$ 841.10	$ 11,427	41.1%	$ 228,540	$ 869.63	$ 12,135	41.7%	$ 242,700	$ 898.56
Replacement Reserve	$ 796	3.0%	$ 15,920	$ 62.31	$ 834	3.0%	$ 16,680	$ 63.47	$ 873	3.0%	$ 17,460	$ 64.64
EBITDA Less Replacement Reserve	$ 9,949	37.5%	$ 198,980	$ 778.79	$ 10,593	38.1%	$ 211,860	$ 806.16	$ 11,262	38.7%	$ 225,240	$ 833.91