

28 April 2017

Dear Fellow Investor

**RE: Investor Update**

We are writing to you as an investor in the Pelathon Pub Fund to provide you with an update on key matters relating to your investment. We have also taken this opportunity to include your distribution statement for the quarter ending 31 March 2017 with this update. The distribution is a return of capital at a rate of 0.0017c per unit which is consistent with the distribution paid for the quarter ending 31 December 2016.

**Damage caused by flooding at Mary G's Hotel at Lismore**

As previously reported, flood damage through Queensland and Northern New South Wales in the aftermath of Cyclone Debbie caused substantial damage to Mary G's Hotel forcing its temporary closure. The flood destroyed the fitout and all stock in the bottle shop and caused damage to the main lower bar. To a lesser extent, other parts of the hotel at higher levels have also been affected. Mary G's resumed trading as of Wednesday 5 April 2017 due to efforts of the staff and management of the hotel. The bottle shop remains closed whilst replacement roller doors are being manufactured and installed.

Management believes that the flood damage will negatively impact the hotel's profit before tax for the 2017 Financial Year by approximately \$230k. The most significant component of this loss is the bottle shop stock which will need to be replaced in its entirety when the bottle shop opens in the coming weeks. The Fund's insurance policies provide cover for assets of the Fund and its operating businesses, however they do not provide coverage for flood damage. Management has previously assessed the financial viability of extending the policies to provide this additional cover however reached the conclusion that the additional coverage was not commercially viable due to the significantly increased premium and excess that applies on claims of this nature.

Since reopening, the hotel has enjoyed a significant uplift in trade from all revenue lines associated with the bar and the night club has also performed strongly in recent weeks. Management is confident that the flood damage cost has been contained to the extent as outlined above and that the event will not impact the ongoing performance of the hotel.

**Revaluation of Hotel Assets**

The Fund recently engaged an independent registered valuer to provide the Fund with updated valuations of its hotel assets. The independent valuations have now been completed and the cumulative value of the 3 hotel assets has been assessed at \$31.8m. This is a significant increase from the previous valuation of \$23.9m based on independent valuations obtained by the Fund in October 2015.

The Fund's hotel assets are recorded in the financial statements at their fair value based on current prices in an active market and the Directors have now adopted these independent valuations for the Fund's assets. The increased valuations materially impact the Gearing Ratio and Net Tangible Asset position and an updated RG46 Disclosure document which incorporates the increased valuations is now available on the Fund's website at [www.pelathon.com](http://www.pelathon.com).

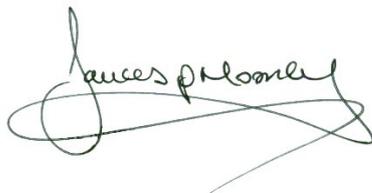
**Future Hotel Acquisitions and Equity Raising**

When Pelathon Funds Management was appointed as Responsible Entity of the Fund, we indicated that we intended to acquire additional carefully selected hospitality assets to further diversify income sources, reduce risk and add value to the Fund. As an active participant in the hotel sector, we believe that we are well placed to identify good purchasing opportunities and to develop appropriate and cost effective capital expenditure plans as well as active management plans for each of the assets.

Due diligence has been carried out on a number of pub and leisure assets over recent months and the Responsible Entity is confident that acquisitions will be secured prior to the end of the financial year that will result in additional assets being added to the fund. Pelathon plans to issue an Offer document in the near future to raise funds to assist with the proposed acquisitions and ensure that the Fund's gearing remains appropriate.

We look forward to continuing to work with you. We remind you that it is our policy to have an 'open door' to our investors and their advisors so feel free to contact any of our senior staff if you have any enquiries. Our telephone number is (02) 9098 9100 and our email address is [info@pelathon.com](mailto:info@pelathon.com). You can also find more information about the Pelathon Group at [www.pelathon.com](http://www.pelathon.com).

Kind regards,



**Jaz Mooney**  
Director



**Darren Baker**  
Director



**David Horton**  
Director