PINDAN
BUILDING ON PARTNERSHIPS

OTAN PROPERTY FUND
GEARING AND INTEREST COVER POLICY

This policy has been adopted by Pindan Capital Limited (ABN 78 139 599 652, AFSL No. 342911) (**Pindan Capital**) as responsible entity of the Otan Property Fund (**Fund**) in relation to the Fund and each project of the Fund (**Project**).

This policy is referred to as the **Gearing and Interest Cover Policy**.

This Gearing and Interest Cover Policy provides guidance and explanation in relation to the calculation of and limits on the gearing and interest cover ratios of the Fund (if applicable) and each Project, including at an individual credit facility level.

To the extent that there is any inconsistency between this Gearing and Interest Cover Policy and as may be prescribed by law, regulation or the constituent documents of Pindan Capital, the Fund and each Project, these prescribed requirements shall prevail.

This version of this Gearing and Interest Cover Policy is current as at 30 March 2017.

1. Gearing Policy

(a) The gearing ratio indicates the extent to which the Fund's or Project's assets are funded by interest bearing liabilities, calculated using the following formula:

$$\text{Gearing ratio} = \frac{\text{Total interest-bearing liabilities}}{\text{Total assets}}$$

(b) The higher the level of gearing, typically, the higher level of risk. Low gearing ratios can mean a lower reliance on external liabilities (primarily borrowings) to fund assets and can be viewed as a measure of financial strength of the Fund.

(c) The Fund will not directly own property, and therefore, will not borrow for the purposes of financing the acquisition or development of property. Accordingly, there is no gearing in respect of the Fund or Cash Units of the Fund. Borrowing will only occur at the level of a Project. According, where a Project borrows, a gearing ratio will be calculated in respect of each individual credit facility of that Project.

(d) Pindan Capital will disclose to investors the gearing ratio for each individual credit facility of a Project to Project Unit holders in that Project.

(e) The gearing ratio disclosed will be calculated using the above formula and based on the Project's latest financial statements. The latest financial statements will be the last audited or reviewed financial statement, except where Pindan Capital is aware of material changes since those statements. If Pindan Capital does not base the gearing ratio on the latest financial statements, it will disclose the source(s) and date of information used to calculate the ratio. If members' contributions (other than borrowings from members) are classified as liabilities in the financial statements, they will be excluded from liabilities in calculating the gearing ratio.

(f) Any borrowings of a Project will be non-recourse to investors.

(g) When undertaking property acquisitions, Pindan Capital will permit the relevant Property to borrow up to a maximum of 80% of a property's value to finance the acquisition and its development. That is, if a property is acquired for $1,000,000 and development and transaction costs are $1,000,000 and the fair value of the property carried in the Project accounts is $2,000,000, then the Project's expected borrowing level will not be higher than $1,600,000 and the gearing ratio will be 80%. This will represent the Project's expected maximum borrowing level.

(h) As this cap on the gearing ratio applies to a Project as a whole, it is possible that the gearing ratio of an individual credit facility may exceed this cap. The gearing ratio will vary with the Project depending on the stage of development and how pre sales are undertaken. Projects that involve pre sales of house and land packages will generally have a lower ratio than sales of completed dwellings.

(i) It is not intended that the Fund or any Project will have material off-balance-sheet financing, for example, borrowings of equity-accounted investments and loans taken out by investors to invest in the scheme where those loans are secured over the Fund or Project's assets on a limited recourse basis. In the event that a Project does have material off-balance-sheet financing, Pindan Capital will disclose the following gearing ratios:

(i) a "look through" gearing ratio that take into account such financing; and

(ii) a gearing ratio based on liabilities disclosed in the Project's financial statements.

(j) In disclosing the gearing ratio to investors, Pindan Capital will explain to investors what the gearing ratio means in practical terms and how investors can use the ratios to determine the Project's level of risk.

(k) Where Pindan Capital is for any reason unable to calculate the gearing ratio and/or the "look through' gearing ratio, Pindan Capital will disclose the reasons why the gearing ratio cannot be calculated, an explanation of the risks and impact of being unable to calculate the ratio and the steps being taken by Pindan Capital to address the risks.

2. Interest Cover Policy

(a) The interest cover ratio indicates the Project's ability to meet its interest payments from earnings calculated using the following formula:

$$\text{Interest cover ratio} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

Where EBITDA means earnings before interest, tax, depreciation and amortisation.

(b) The lower the interest cover ratio, the higher the risk that the Project will not be able to meet its interest expense. A Project with a low interest cover ratio only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest expense.

(c) The Fund will not directly own property, and therefore, will not borrow for the purposes of financing the acquisition or development of a property. Accordingly, there is no EBITDA and therefore no interest cover ratio in respect of the Fund or Cash Units of the Fund. Borrowing will only occur at the level of a Project. According, where a Project borrows, an interest cover ratio may be capable of being calculated in respect of each individual credit facility of that Project.

(d) However, as the Projects of the Fund will primarily be concerned with property development (meaning that the Project assets are not intended to be held in order to generate any income) and any interest expense will likely be capitalised, Pindan Capital may be unable, and therefore will not be required, to calculate the interest cover ratio for each individual credit facility of a Project.

(e) In these circumstances Pindan Capital must remain of the view that the relevant Project will be able to meet its payment obligations in relation to any debt facilities, from sales of Project dwellings, predominately before, but also during or after development.

(f) There is a risk that it may take longer than expected to develop a Project. Any such delays will likely incur additional interest expense. To mitigate this risk, the construction contracts Pindan Capital enters into with developers and builders will be at a fixed price and for a set timeframe with liquidated damages payable in the event such conditions are not met.

(g) Where an interest cover ratio is capable of being calculated, Pindan Capital will disclose to investors the interest cover ratio for each individual credit facility of a Project to Project Unit holders in that Project.

(h) The interest cover ratio disclosed will be calculated using the above formula and based on the Project's latest financial statements. The latest financial statements will be the last audited or reviewed financial statement, except where Pindan Capital is aware of material changes since those statements. If Pindan Capital does not base the interest cover ratio on the latest financial statements, it will disclose the source(s) and date of information used to calculate the ratio.

(i) Where an interest cover ratio is capable of being calculated (i.e. for an investment Project being a non-development income producing Project), Pindan Capital intends to maintain an interest cover ratio of more than 2.

3. Interest Capitalisation Policy

(a) Pindan Capital may, and in many cases will, permit any interest expense of a Project to be capitalised.

(b) However, such capitalisation of interest will only be permitted where Pindan Capital is reasonably certain that pre-sale sales of Project dwellings will exceed the amount of any debt facility giving rise to any interest expense.

(c) To the extent that any interest expense is capitalised, it will be repaid when the relevant Project is wound up. Due to this interest capitalisation, the principal on the debt facility will increase by the amount of the capitalised interest.

(d) The risk associated with capitalising any interest expense is that it will reduce the amount of money available from the ultimate sale of the developed property to be distributed to the Project Unit holders, as the compounding effect of the capitalised interest means that more interest will be payable on the debt facility than if the Project was able to repay interest throughout the term of the debt facility.

4. Review

This Gearing and Interest Cover Policy will be reviewed by management on an annual basis and reviewed and adopted by the Board. As appropriate, that review may be carried out with the assistance of external compliance advisers and/or the auditor of Pindan Capital.

Date of next Pindan Capital management and board review: March 2018