



5 July 2013

Dear Investor

**Subject: Strategic Finance Limited (In Receivership and In Liquidation) (“SFL”)
Strategic Nominees Limited (In Receivership) (“SNL”)
Strategic Nominees Australia Limited (In Receivership) (“SNAL”)
Strategic Advisory Limited (In Receivership)
Strategic Mortgages Limited (In Receivership)
(Collectively, “Strategic”)**

1. Introduction

We refer to our last report to secured debenture investors dated 21 December 2012 (the “December Report”) and our website update dated 9 May 2013. We take this opportunity to provide you with a further update on the progress of the receiverships.

This report is subject to the restrictions set out at Appendix I.

2. Overall returns to secured debenture investors

In our December Report, our estimated range of recoveries to secured debenture investors was 12% to 20% of the principal amount outstanding as at the date of receivership.

At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.

A further distribution of 1.5 cents in the dollar was paid to secured debenture investors on 24 December 2012. Distributions in the receivership to date total 10 cents in the dollar, which equates to \$36.8M in total interim distributions.

As detailed in section 4 of this report, the majority of the property loan book has now been realised. There are five key remaining property loans which are more challenging to realise due the nature of these properties – being development or coastal properties with title/resource consent issues.

We note that, for the purposes of this report, no allowance has been made for potential legal claims and subsequent recoveries that may arise from our investigations. We will continue to refine and update the estimated recovery range in future reporting.



3. Investigation

As previously advised, we have been engaged in settlement discussions with the directors on a without prejudice and confidential basis in accordance with a formal process.

The Receivers' claims against the directors are in relation to alleged breaches of their obligations under the Companies Act. Also, the Financial Markets Authority (FMA) has advised it intends to pursue civil action against the directors in relation to alleged breaches of the Securities Act.

The purpose of the settlement discussions with the directors has been to explore whether there is any opportunity to achieve a negotiated settlement with a better outcome than, and without incurring the substantial cost of, court proceedings.

This process involved a robust and constructive discussion regarding the claims against the directors.

These negotiations are now effectively complete, subject to the resolution of certain outstanding matters on an agreed timetable.

The FMA has also been engaged in confidential discussions with the directors.

In the meantime, we have also been investigating a separate claim against a third party, with whom we are now also involved in without prejudice discussions. The deadline for finalising a settlement with the directors has been extended whilst these separate discussions are progressed. We will provide a further update as soon as possible.

We acknowledge that investors are keen to see a resolution in respect of any claims available to the Receivers. At this stage, we consider the without prejudice discussions being progressed provide the best opportunity to maximise recoveries for investors. Should those discussions ultimately prove unsuccessful, the Receivers intend to commence High Court proceedings.

4. Property loan book

SFL's major remaining asset is the property loan book. These loans were made to borrowers either directly through SFL or through SNL or SNAL.

For the period 12 March 2010 to 30 June 2013, SFL has received net realisations of approximately \$45.0M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

The status of Strategic's remaining loans can be categorised as follows:

- a. Loans where the underlying properties are under contract;
- b. Loans where further work is required to resolve certain issues prior to marketing the properties for sale; and
- c. Loans where the only remaining security is guarantees.



Loans where the underlying properties are under contract

We outline below a summary of loans and related properties that are now under contract for sale since our December Report (we have only included in this list property sales where there are proceeds available to Strategic):

- One loan where an assignment of Strategic's debt has been entered into (with consideration to be paid to Strategic on settlement of the assignment);
- Development site in Fiji is subject to an unconditional contract; and
- Repayment plans have been entered into with certain guarantors, which provides for funds to be paid to Strategic over an agreed period of time.

Loans where further work is required to resolve certain issues prior to marketing the properties for sale

There are five key remaining loans where the underlying properties are not under contract or subject to any arrangement. These are as follows:

- Property located in Northland where the borrower is endeavouring to resolve title issues so that the development can be sold;
- Property located in Australia where an amendment to the resource consent is being sought;
- Property located in Fiji where title issues are being dealt with; and
- Two properties where Strategic has a second mortgage and there are substantial amounts owing to the first mortgagee. In both of those cases we are working with the borrower to negotiate the best possible outcome for Strategic.

Progress has been made in dealing with the outstanding property issues in the first half of 2013 and we expect to have either settlement arrangements in place or marketing campaigns for these properties commencing in the second half of 2013.

In addition, there are three loans where legal action is being taken to try to recover funds for Strategic. The legal action primarily relates to disputes as to who is entitled to certain funds. These legal proceedings were all heard this year and the current status is as follows:

- Strategic was successful in relation to a summary judgment proceeding as to the entitlement to certain funds, however, the solicitor acting for the unsuccessful defendant has indicated that it is likely to appeal the judgment.
- Strategic successfully obtained summary judgment in relation to a debt owed by a third party under a guarantee. Payment has not been received and bankruptcy proceedings have been initiated against the third party.
- The third matter was heard in the Court of Appeal in early 2013 and we are awaiting a decision from the Court.

Loans where the only remaining security is guarantees

We are also seeking to maximise the value of any collateral securities (including personal guarantees) that Strategic holds.



We have now dealt with the majority of the guarantors of loans either by way of settlement arrangements (which provides for funds to be repaid to Strategic over an agreed period of time) or making demand and issuing legal proceedings to recover funds.

There are two key guarantors that we have yet to reach agreement with, or take enforcement action on. We are working towards a resolution of those claims as quickly as possible.

Where guarantors are bankrupted, we have filed claims in their respective bankruptcies and will await the outcome of the bankruptcy process to determine whether there will be any funds available to Strategic.

5. Concluding comments

Should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or postal address, as follows:

Strategic Finance Limited (In Receivership and In Liquidation)
PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
Website: www.pwc.com/nz/strategicfinance

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Fisk', written over a faint, light-colored signature line.

John Fisk
Receiver



Appendix I

Restrictions

- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Strategic. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
- The statements and opinions expressed in this report are based on information available as at the date of the report.
- We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.
- We have relied on forecasts and assumptions about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.