

North East Australia Development Fund

April 2011 Fund Activity Update

Fund Overview – ASIC Reg Guide 46 Information Table

Gearing Ratio	0.58 - The funds policy is to be within the .5 - .7 range, with short term variations based on stages in property value add process. (Updated Quarterly)					
Interest Cover	0.94 times Based on audited consolidated financial accounts at 30.6.10					
Scheme Borrowings	Lender	Security Assets	Principal	Annual Interest Rate	Commence	Expiry
	(C & P Gold Coast Property Fund)					
	Perpetual ACF Colonial First State Fund	Centremark Sth Tweed	\$4.5M	9.30% Variable	1/10/09	30/6/11
	Perpetual ACF Perpetual Inv Fund	Centremark Withcott Town Centre	\$1,024,240	9.20% Variable	7/5/08	7/5/11
	Ellesmere Pty Ltd	CentreMark Withcott Lot 5 Jones Rd	\$1.8M	8% Fixed	17/12/09	16/12/11
	Airport Central Partnership	CentreMark Withcott	\$229,986	9% Variable	16/12/09	
	Commonwealth Bank	126 Margaret St Toowoomba	\$1,690,000	8.75% variable	23/3/11	2/1/13
	(Sub trust – C&P Hervey Bay Property Trust)					
	National Australia Bank	31 Main St Pialba	\$535,000	7.84% Variable	1/10/10	28/09/12

<p>Portfolio Diversification</p>	<p>The funds intentions as outlined in the PDS is to acquire value add growth assets in the commercial / retail / service sector in growth regions on North East Australia. To date we have 4 centres geographically spread across the regions of NSW Northern Coastal Border town of Tweed Heads, South East Queensland Corner regional centre of Nerang, Hervey Bay Qld and Brisbane/Ipswich/Toowamba regional Development Corridor - township of Withcott. These are all medium sized service centres with a range of tenant mix spread across commercial, health & community service providers, a mix of small food and broad based retailers. Tenant lease mix of 1, 3, 5 & 10 year leases plus options. The intention was to further grow the portfolio to give further diversification and further spread individual tenant risk. Due to the ongoing effects of the Global Financial Crisis for the Property Trust Sector, the fund in June 2010 reviewed its activities to determine its medium term future, with respect to funding availability and cost. The decision taken by the board to wind up fund, will reduce portfolio diversification as properties sold over time.</p>
<p>Valuation Policy</p>	<p>The Responsible Entity gets the properties valued at least every 3 years, and more frequently where funders require or major improvements occurred. These valuations will be undertaken only by suitably qualified valuers.</p>
<p>Related Party Transactions</p>	<p>The Responsible Entity (E A Securities Ltd) contracts out the property management services to associated parties related to Mark Walsh. C & P Properties Group also provides at market rates shopping centre management services. Renewable Energy Company has a property maintenance and cleaning division which completes alongside other service providers for handyman and other maintenance services. A Mark Walsh related entity has a small unit holding (approx 10%) in the holding trust, but not a director. Peter Hall's associated company has been awarded an arms length commercial basis a Project Management contract for a period of 9 months to oversee the Development, Leasing Implementation and Sale process of the Withcott Shopping Town Centre project. The Responsible Entity has a conflicts policy and the other unrelated directors have set guidelines for management to follow to ensure any work on commercial arms length basis.</p>
<p>Distribution Practices</p>	<p>The fund aims to provide regular distributions in each income year. However the making of distributions is subject to the performance of the fund and the available cash flow to fund distributions. Distributions may comprise a mix of net income and a return of invested capital to unit holders. During the past year the distribution was principally a return of capital. The cash distribution is currently suspended and not likely to recommence in the near term, with the fund being wound up, but is reviewed regularly by the Responsible Entity.</p>
<p>Withdrawal Rights</p>	<p>The underlying assets of the fund are illiquid, and therefore an investment in the fund should be considered illiquid. A Unit Holder does not have the right to request redemption of their units.</p>

	There is no established market for the sale of units issued.
--	--

	The Responsible Entity does have the ability to offer redemption but at this point of time and in the foreseeable future the Responsible Entity will not be making an offer.
--	--

Fund Redirection

No change has occurred, since the Responsible Entity of the fund made the decision in June 2010, due to factors outlined below, to commence an orderly sale of all assets of the fund, pay down debt and return remaining capital to investors over the next 12 -18 months. Over the past month property market conditions have continued to remain subdued, as the effects of the early interest rate rises, poor retail sales, political uncertainty continue to effect small business and banking sector confidence in the commercial property sector.

The managers are continuing to study the medium terms effects of the Global Financial Crisis on the current and future operations of NEADF and look to determine the best way forward for the unit holders. The funds stated objectives were;

- Acquire a well diversified portfolio of value add growth assets in growth regions of North East Australia with a debt to equity ratio within the 50% - 70% range providing a gearing situation for unit holders. Over the medium to long term above average returns are anticipated, but the gearing would increase fund volatility. Intention was also to make regular monthly cash distributions over the life of the fund, when possible.

The major factors affecting the trust in meeting its medium to long term objectives are;

- The Global Financial Crisis (GFC) and resulting loss of investor confidence occurring during the early growth building phase of the fund, has hindered the fund's ability to raise the required equity capital to ensure the fund could grow to its optimum size, giving the required economies of scale to provide the cost efficiency and portfolio diversification desired for unit holders.
- The GFC drastically changed the dynamics of the Commercial Property Funding market in Australia and continues to do so. This market was basically divided into three sectors, 50% of funding being provided by the Local Australian Major Banks, 25% funded by Institutional Retail First Mortgage Funds, 25% funded by large International s Banks. The later two sectors providing 50% of the funds closed down almost immediately the GFC hit, now some two years plus ago. The international banks withdrew back to their home bases as Government's nationalised or provided financial support to stop bank failures. The Australian Government offered a deposit guarantee for our Banks' to stimulate much needed general confidence, but by not extending this to the institutional retail mortgage trusts, redemption requests froze this sector. These events put huge pressure on listed equities and property owners to inject further equity capital at a time of low confidence, in some cases almost wiping out existing unit holders

equity. Although some stability has occurred, continued market volatility is hampering the process of either repaying or refinancing of the loans from these two sectors. The Australian Banks, although not effected to the same extent as their international peers, the market concerns and their existing high level of exposure to the Australian Commercial Property Sector meant that they would not be in a position to immediately pick up all the loans from the exiting sector players. The sheer size and magnitude of the situation and failure of the government to assist the market in providing short/medium term solutions will see this market continue to struggle for several more years to come. This supply – demand distortion is providing an ideal environment for the local banks and others to extort substantially higher margins and costs, in some instances over double. This is making it important to reduce debt and gearing levels.

- With investor confidence low, property sales within the Commercial Property Market, almost were non existent in 2009 with the exception of a few “fire sales”. Late 2009 and early 2010 has seen some increase in turnover of properties, although not at the same price level, pre GFC.
- Future market uncertainty remains with the prospect of higher interest rates, continuing large debt rollovers, lack of government sector support and a prospect of a difficult leasing environment. This will see net rents under pressure as tenants’ ability to pay diminishes and local and state governments increase taxes and fees for services (or lack of).
- The ability to raise capital in this current environment is limited and most commonly investors are wanting to contribute at a substantial discount to Net Tangible Asset Value. This dilutes existing unit holder equity.

Asset Sales

Nerang Centre

The long awaited settlement of the sale of this asset finally took place during March, after a protracted sale and due diligence process which occurred over the previous 6 months. As previously disclosed contracts with conditions were exchanged on 8th October 2010 with a Toowoomba based investor for \$11.25M. The contract was subject to various conditions including the acquisition of 126 Margaret St Toowoomba (a prime commercial income producing property) for \$3 Million. This sale enabled a substantial reduction in debt, and a major first step in the wind up process of the fund.

126 Margaret St Toowoomba

Discussions are already underway to commence a low profile sales campaign, once a major tenant funded external signage and building repaint is completed in the next month or so. The local Toowoomba property market is showing continued stability with early signs of possible improvement, on the strength of the renewed mining boom and improving agricultural sector.

Hervey Bay Main St Shops

Further progress was made during the March quarter with the sale of small property No 37 Main St for \$300 000. The price reflected a small loss after allowing for acquisition and other costs. The remaining Hervey Bay shops No 31 Main St, is currently being marketed for sale at \$1.2 Million. To enhance the sale prospects we extended the leases on two of the shops, and continue to market the vacant older style retail shop (old bicycle/pet shop). To date discussions are taking place with a neighboring property owner who has expressed some interest. Overall though, the commercial property market in Hervey Bay is flat and it is considered a buyer market.

South Tweed Heads Centre

Post the NSW election result, which showed a decisive vote for change and most likely a new positive mood, it was decided to commence a high profile Expression of Interest campaign. Results will not be known till late May, but considering the many known challenges with this property, the agents are in positive early discussions with two groups. During the campaign management are still strongly looking for tenants to take up some of the vacant areas. We are expecting tough negotiations which could see a price point between \$7.25M - \$8.25M.

Withcott Town Centre

Despite the horrific storm damage that occurred in the Lockyer Valley / Withcott region in early January, areas such as Withcott on the main Highway have bounced back quickly, as the re-opening of the Western Corridor was a high priority. All the minor storm damage that occurred to our centre has been repaired and paid for by our insurers, in a prompt and efficient manner. With major funding allocated on rebuilding the region this should provide further stimulus to the centre. The tenants in the centre are now more positive, with the Thrifty Link Hardware open and trading well. Tenant enquiry is promising for both existing available space and for the proposed stage one IGA Supermarket specialty space. This will include a bottle shop for the local Pub next door, as well as a Café with Alfresco seating. Discussions with IGA as to final design, specifications, building timetable and ongoing requirements are with the lawyers in final documentation phase. Once completed ,tenders and final construction due diligence will be undertaken, including a formal valuation report. This would be expected to be finalized over the next 3 months or so.

At this point the project may be offered for sale or joint venture arrangements may be entered into, trying to maximize the value add for unit holders. If not sold prior, the property will be sold once the Supermarket is built and trading. This would most likely occur in the first half of 2012.

Loan Financing

Commercial Property funding in Australia remains very tight with only the 4 major Australian Banks being in the market. With the sale of the Nerang Property, this has lowered the overall fund debt to equity ratio to around our desired 60% level, post valuation write downs.

The Commonwealth Bank is our new lender providing funding for 126 Margaret Street Toowoomba, and is in the process of refinancing the remaining Colonial First State and Perpetual debt facilities which were required to be paid down due to those funds being closed up. We are hoping to have the refinance completed by the end of May, which would see lower funding costs moving forward, till assets sold. Both the Ellesmere and National Australia Bank facilities will remain till maturity or till securing assets sold.

Once completed, this will at last provide financing stability for the fund, which has been lacking for the past few years, during the GFC.

Financial Performance

The fund is currently underperforming due to continued lower than forecast rental income receipts, due to higher vacancies, larger rebates required to secure or keep existing tenants and downward pressure on base rental rates. Outgoings continued to increase with high financing costs, continued increases in government & statutory body charges including the creation of new levies and fees. Full audited detailed financial accounts for the financial year will be provided later in the year when completed.

Capital Distributions

Partial return of capital payments are not likely to be made until the South Tweed Centre sale is completed. Further return of remaining capital is then most likely to occur on final trust windup. The focus of all efforts is to manage this exit in the most value efficient and timely manner possible.

The Fund and Property Management team appreciate your ongoing patience and support during this difficult wind up phase.

Yours Sincerely



Mark Walsh