

Dear Investor,

In early June we wrote to all investors advising we were completing a detailed review of the loan portfolio. We committed to updating all our investors once that review was completed.

While there are still some areas of investigation to be finalised we wish to provide an update and advise investors of significant steps that are required in the best interests of all investors.

As disclosed on our website we currently have some loans in arrears. To a large extent our review has focused on those loans.

At present we have 8 borrowers whose interest arrears are greater than 60 days. Of those loans 4 are causing us most concern. In investigating our securities there is an indication that if the security properties related to these loans were to be sold in the current market there will be a loss to the Fund.

Market conditions continue to be extremely difficult for borrowers trying to sell property or refinance where required.

We are continuing to work with our borrowers in relation to those loans. However it is prudent at this time to take steps to protect investors by setting aside funds usually paid as distributions to provide cover (provisioning) for potential losses if properties had to be sold in today's depressed market.

It is difficult to estimate what amount should be provisioned. However with the information we have at this time we believe approximately \$3m in provisioning is prudent.

To achieve this we propose to:

1. Reduce the monthly distribution on all investments for 6 months to 2.50% effective 1 September 2011
2. Make a withdrawal of capital for all investors equal in total to a 4% return over 6 months.
3. Make no further redemption offers during this period.

This will mean that over this period investors will receive payments from their investments equal to their normal distributions at our normal rate. It is important to understand that part of these payments is principal not interest. Those principal payments can be reinvested if investors wish to do so.

We propose to hold an investor information evening to allow investors the opportunity to hear from us first hand on these matters. The details for that meeting are:

- Thursday 18<sup>th</sup> August 6pm – 8pm at the Whitebrook Theatre Southern Cross University Lismore.

At this stage subject to the above we do not anticipate any impact on your capital investment. Further action may be required as more information comes to hand. The current measures are a necessary step to protect investors.



Christopher G R Lomax  
Chairman



Scott Collis  
Chief Executive Officer

5<sup>th</sup> August 2011