QUESTUS
FUNDS MANAGEMENT LIMITED

884 Canning Highway
Applecross WA 6153
PO Box 1346
Canning Bridge WA 6153
Telephone 08 6310 5040
Facsimile 08 9364 7333
funds@questus.com.au
www.questus.com.au
ACN 111 325 556
AFSL 286318

Questus Land Development Fund (FUND)
ARSN 116 602 076
Regulatory Guide 46
Updated Disclosure Notice
14 January 2011

In September 2008 the Australian Securities and Investment Commission (ASIC) released a new Regulatory Guide relating to the disclosure of information for Unlisted Property Schemes for retail Investors. The guide sets out eight principles for improved disclosure to retail Investors to help them compare risks and returns across investments in the unlisted property sector. Outlined below are the eight principles, including an overview of their meaning, followed by Fund's position in relation to each of the principles.

Questus Funds Management Limited is the Responsible Entity for the Fund and is referred to throughout this Disclosure Notice as the "Manager".

No.	Principle	ASIC Definition
1	Gearing Ratio	The higher gearing ratio means a high reliance on external liabilities (primary borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. Gearing Ratio = $\frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$
2	Interest Cover	A property scheme's interest cover is a key indicator of its financial health. The lower the interest cover, the higher the risk that the scheme will not be able to meet its interest payments. A scheme with low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments. Interest Cover = $\frac{\text{EBITDA – unrealised gains + unrealised losses}}{\text{Interest Expenses}}$
3	Scheme Borrowing	Relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be held long term. If the scheme has a significant proportion of its borrowings that mature within a short time frame, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the scheme cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss. Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately. This means that the scheme may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the scheme is no longer viable.

No.	Principle	ASIC Definition
4	Portfolio Diversification	Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.
5	Valuation of Real Property	Investing in a property scheme exposes Investors to movements in the value of the scheme's assets. Investors, therefore, need information to access the reliability of valuations. The more reliable a valuation, the more likely the asset will return the amount when it is sold. However, a forced sale may still result in a shortfall compared to the valuation.
6	Related Party Transactions	A conflict of interest may arise when property schemes invest in, make loans or provide guarantees to related parties.
7	Distribution Practices	Some property schemes make distributions party or wholly from unrealised revaluation gains and/or capital rather than solely from realised income. This may not be commercially sustainable over the longer term, particularly where property values are not increasing.
8	Withdrawal Rights	Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.

1) Gearing Ratio

Information relating to the manner in which the Fund and Fund subsidiaries borrow money and gearing levels are disclosed in Section 2.6 of the PDS issued 24 September 2007.

In adopting the gearing ratio disclosure principal calculation methodology as detailed in the table above, the Manager has calculated the gearing ratio as at the 1 January 2011 at 104%. This means that interest bearing liabilities are 104% of the value of the Fund's assets. In calculating the gearing ratio, the Manager has taken a conservatice approach and has considered the $9.67m in monies raised through the issuance of a convertible note as expired facility. In the event of a conversion of these monies from expired facility to equity the gearing ratio would be 74%.

The Product Disclosure Document for the Fund states that the Fund may borrow up to 80 percent of the development costs of each property development project. The Manager expects the long-term gearing ratio for the Fund to be in the order of 50 to 65 percent of the gross value of the Fund's assets, however the actual level of gearing may vary from time to time.

The current gearing ratio is currently above the expected long term gearing ratio range, however the Manager confirms that the Fund, as at the date of this Continuous Disclosure Notice, has borrowed a total of 71% of total development costs of all current property development projects.

2) Interest Cover

ASIC Regulatory Guide 46 paragraph 122 provides for a disclosure principle to be omitted if the information is likely to mislead Investors or is clearly inappropriate.

As the Fund's activities are residential land development, the use of an interest coverage ratio is inappropriate. Interest cover generally refers to typical commercial type assets which are leased and the resultant interest cover is from the rental income received from these assets. Interest is a component of development costs and is generally capitalised within the overall development costs of a project. As interest is capitalised it is generally not realised as an expense of the individual projects until sales of the lots created occur and the project is finalised. The Manager has not reported an interest cover ratio as it believes it is misleading to Investors.

3) Scheme Borrowing

Information on the risks associated with borrowings are detailed in Section 5 of the PDS issued 24 September 2007.

In the event of the Fund assets being sold, secured creditors will receive any cash distributions ahead of unit holders in the Fund.

The following table provides an update on the current borrowings the Fund and Fund subsidiaries has with its primary funders being St George Bank (St George) a Division of Westpac Banking Corporation Limited and Bank of Queensland.

The Manager advises that loan facilities provided to the subsidiaries of the Fund by both St George and Bank of Queensland are all currently expired and have been since May 2009 and December 2009 respectively.

Projects	Loan Amount	Interest Rate Type	Default interest being charged	Maturity Status	Lender
Pinjarra Stages 1 & 2	$2,022,547	Variable	13.30% p.a	Expired	St George
Lane Park Estate	$3,856,337	Variable	10.50% p.a	Expired	Bank of Qld
Karnup Estate	$8,069,782	Variable	10.50% p.a	Expired	Bank of Qld
Tuart Rise Estate	$7,277,496	Variable	13.30% p.a	Expired	St George

PINJARRA SPRINGS

Pinjarra Stages 1 & 2 (QLDF Development 1 Pty Ltd)

This project is a two stage residential development.

- Stage 1 – Completed 55 residential lots subdivision
- Stage 2 – Development Approval for a proposed 30 lot residential subdivision has been obtained.

As at the date of this Continuous Disclosure Notice, the Manager has report the following sales summary:

Sales Status	No.
Number of lots settled	33
Number of lots under contract	2
Total number of lots sold	35

The Manager continues to actively market the remaining 20 lots from Stage 1 and anticipates all remaining lots from Stage 1 will be sold and settled during 2011.

The Manager estimates that total gross sale proceeds of $2,750,000 may be achieved from the sale of the remaining 20 lots in Stage 1. The proceeds from the sale of these remaining lots will provide for the full clearance of the expired facility which at the date of this notice is $2.02m.

QLDF Development 1 Pty Ltd has made significant principal repayments to the expired facility with St George. Since June 2009 QLDF Development 1 Pty Ltd has facilitated a total $4,170,000 in principal repayments to the St George expired facility.

St George issued Letters of Demand to QLDF Development 1 Pty Ltd on 1 December 2009 and 30 June 2010 for the full repayment of expired facility owed to St George by QLDF Development 1 Pty Ltd.

The Manager has sought a loan extension or renewal approval from St George for the QLDF Development 1 Pty Ltd expired facility, but as at the date of this notice has been unable to secure any commitment from St George to extend or renew the expired facility. The Manager has obtained a period of forbearance in respect to the QLDF Development 1 Pty Ltd expired facility until the 16 January 2011 and has requested a further period of forbearance from St George.

The Manager will continue to undertake sales to provide further capital reductions to the St George expired facility. Despite continuing to undertakes sales and having provided St George with over $4,170,000 in principal repayments over the past 18 months, St George has stated to the Manager that it considers the QLDF Development 1 Pty Ltd expired facility to be in default and is charging a default rate of interest on the expired facility. Further, St George has advised that it considers itself under no obligation to agree to any proposal or grant any extension of the expired facility.

In correspondence from St George dated 16 August 2010, St George advised of their intention to appoint Investigative Accountants to QLDF Development 1 Pty Ltd for the purpose of providing a report to St George. QLDF Development 1 Pty Ltd agreed to the terms proposed by St George and provided all necessary information.

In correspondence from St George dated 26 November 2010, St George advised of their intention to again appoint Investigative Accountants to QLDF Development 1 Pty Ltd for the purpose of providing an updated report to St George. QLDF Development 1 Pty Ltd agreed to the terms proposed by St George and provided all necessary information.

The Manager continues to seek an extension of the expired facility from St George, whilst pursuing alternate financing options for the expired facility.

“Tuart Estate” (Yalop Pty Ltd)

This project is a two stage development

Stage 1

- Stage 1 is the construction of 12 x 1 hectare lots. Development Approval for Stage 1 of the Tuart Estate development has been obtained.
- Construction of Stage 1 commenced in September 2010 and is scheduled for completion in March 2011. Titles on the individual lots created are anticipated to be issued within 60 days of constructions of Stage 1 being completed.
- The Manager has accepted offers and entered into contracts on 5 lots for Stage 1 representing $2,925,000 in gross sales as at the date of this notice. Settlement of these lots are expected to occur following issuance of titles.
- The Manager estimates total gross sales in excess of $7,000,000 from lots created in Stage 1 following completion.
- The proceeds from these sales will be applied to expired facility reduction.

Stage 2

- Stage 2 is the proposed development of 68 x 2,000sqm special residential lots.
- Planning works on Stage 2 are advanced with the Manager seeking to have all necessary approvals in place by mid to late 2011.

The Manager has been in negotiation and actively working towards a re-finance of the Yalop Pty Ltd expired facility with St George. The Manager advises that it is well progressed with this re-finance and expects formal approval shortly.

The timeframe for the re-finance has required a new valuation to be undertaken. The Manager obtained an updated valuation on the property from CB Richard Ellis dated 15 December 2010 as required to facilitate the re-finance of the expired facility with St George.

The “As Is” value for the entire site is stated at $13,900,000. The valuer has also stated that following completion of Stage 1, the “On Completion” value of the property would be $16,725,000.

In determining the current valuation of the property, the valuer has stated the current “As Is” value for Stages 1 and 2 are as follows:

Stage 1 - $4,250,000
Stage 2 - $9,650,000
Total - $13,900,000

St George have advised the Manager that the expired facility for Yalop Pty Ltd is considered to be in default and St George is charging a default rate of interest on the expired facility.

St George issued Letters of Demand on 1 December 2009 and 30 June 2010 for the full repayment of the expired facility.

The Manager has been seeking to obtain a loan extension or renewal approval from St George for the Yalop Pty Ltd expired facility, but has been unable to secure any commitment from St George to extend or renew the expired facility.

Since 1 January 2010, Yalop Pty Ltd has made $2.10m in principal repayments to St George. The current Loan to Value ratio on the St George facility is 52%.

Despite the significant debt reduction and progression of the development, St George have advised that it considers itself under no obligation to agree to any proposal or grant any extension of the Yalop Pty Ltd expired facility.

In correspondence from St George dated 16 August 2010, St George advised of their intention to appoint Investigative Accountants to Yalop Pty Ltd for the purpose of providing a report to St George. Yalop Pty Ltd agreed to the terms proposed by St George and provided all necessary information.

In correspondence from St George dated 26 November 2010, St George advised of their intention to again appoint Investigative Accountants to Yalop Pty Ltd for the purpose of providing an updated report to St George. Yalop Pty Ltd agreed to the terms proposed by St George and provided all necessary information.

The Manager continues to seek a loan extension from St George, whilst pursuing alternate financing options for the St George expired facility.

Lane Park (QLDF Development 2 Pty Ltd)

This project is a proposed construction of 6 special rural lots. Development Approval for the project is held, however due to market conditions the Manager has not commenced construction of these lots.

The facility for QLDF Development 2 Pty Ltd with Bank of Queensland has expired and the Manager has been seeking to meet with Senior Management of Bank of Queensland but has not been afforded a meeting. Bank of Queensland issued a Letter of Demand on the 4 May

2010 and a proposal has been submitted to Bank of Queensland for an extension to the expired facility. At this stage no agreement has been reached on the extension of the expired facility.

The Manager is currently unable to advise if an agreement will be reached with respect to the extension of the Bank of Queensland facility. In the event that an agreement cannot be reached. Bank of Queensland may seek to enforce their security.

Harvey Road (QLDF Development 3 Pty Ltd)

This project is a multi-stage residential land subdivision that is anticipated to deliver a total of 211 residential lots. Development Approval for the project is not yet held and the Manager is currently working with the relevant statutory bodies to obtain the relevant approvals.

The facility for QLDF Development 3 Pty Ltd with Bank of Queensland has expired and the Manager has been seeking to meet with Senior Management of Bank of Queensland but has not been afforded a meeting. Bank of Queensland issued a Letter of Demand on 4 May 2010 and a proposal has been submitted to Bank of Queensland for an extension to the expired facility. At this stage no agreement has been reached on the extension of the expired facility.

The Manager is currently unable to advise if an agreement will be reached with respect to the extension of the Bank of Queensland facility. In the event that an agreement cannot be reached. Bank of Queensland may seek to enforce their security.

Convertible Notes – Issued to Addwealth Achiever Fund.

The Fund has issued Convertible Notes (notes) to the Addwealth Achiever Fund (Lender). A summary of the key features of the notes are detailed below:

Facility Amount:	$10.0m
Amount Drawn:	$9.67m
Term:	24 months
Expiry Date:	14 December 2011
Interest Rate:	Fixed at 12% per annum
Conversion to Equity:	The Lender can covert expired facility to equity at any time during the term of the Convertible Note.

Monies raised from the convertible note have been used to meet on going development costs of the various projects and to meet borrowing costs including interest and capital repayments.

Questus Mortgage Funds Limited

Questus Mortgage Funds Limited (QMF) is a related entity to the Fund. QMF has provided additional funding of $3,277,006 to the Fund in the form of a loan and is charging a rate of 15% per annum on these monies. This loan is due to be re-paid on the 30 June 2011. In providing the loan, the QFM has obtained charges from the Fund subsidiaries as security for the loan.

4) Portfolio Diversification

Information on Fund assets is contained within Section 4 of the PDS issued 24 September 2007.

Information on the Investment Strategy, Investment Objective and Investment Criteria of the Fund is detailed in Section 2 of the PDS issued 24 September 2007.

Regular information updates on the status of the Fund projects is provided to Investors through quarterly updates and via the Questus website www.questus.com.au.

5) Valuation Policy

The Fund's valuation policy is detailed in Section 3.7 of the PDS issued 24 September 2007.

Valuations are undertaken on an "As Is" basis, however to secure construction funding from a financier, the financier may require an "As if Complete" valuation for their internal risk assessment purposes. The Manager does not rely on "As if Complete" valuations in calculating the unit price of the Fund.

Each asset of the Fund is valued by an experienced independent qualified valuer in accordance with industry standards at least once in every three year period. The valuation of assets will be staggered over this three year period so that approximately one third of Fund's assets will be valued each year.

A valuation of the Pinjarra development was completed on the 5 March 2010.

A valuation of the Tuart Estate development was completed on the 15 December 2010.

The Manager will obtain valuations for both the Karnup Estate and Lane Park projects during 2011 with both of these properties being last valued in September 2008.

6) Related Party Transactions

The Manager has a policy of full disclosure of related party transactions. Details on related party transactions are disclosed in Section 10.4 of the PDS issued 24 September 2007.

The following related party transactions have occurred since the issue of the PDS.

- Additional funding sourced from Questus Mortgage Funds Ltd in the amount of $3,277,006. This facility is due to expire on the 30 June 2011.

- Questus Asset Management Pty Ltd (QAM) a related entity to the Fund, had been engaged by the Manager to undertake project and asset management services for each development project being undertaken by the Fund. QAM was entitled to and received $10,000 (plus GST) per month per project for services provided. The Manager terminated this agreement in November 2010.

The Fund's Compliance Plan provides the basis on which related parties transactions are to be approved and managed. A summary of these provisions are as follows:

- All transactions in which a benefit is received by the Manager or a related party must be approved by the Board and disclosed to the unitholders and Compliance Manager.
- Related party transactions are reviewed annually.
- A register of related party transactions is kept by the Manager.

7) Distribution Practices

The Fund's distributions policy is detailed in Section 3.4 of the PDS issued 24 September 2007 and are summarised as follows:

- "Distributions (if any) are paid on a quarterly basis and may comprise income and/or capital".

The Fund provides Investors with a quarterly distribution statement detailing any distributions paid over the previous quarter (if any).

Following the onset of the Global Financial Crisis and the demands placed on the Fund and its subsidiaries by its senior lenders the Fund has not made a distribution since the quarter ending December 2007 in order to preserve capital, repay expired facility and service interest.

As a result of the uncertainty surrounding the expired facilities provided to the Fund and its subsidiaries, the Manager, as at date of this Continuous Disclosure Notice, does not expect a distribution to be paid to investors within the next 12 months.

8) Withdrawal Arrangements

The underlying nature of the investments made by the Fund means it cannot be deemed liquid under the terms of the Corporations Act and as such withdrawals from the Fund can only be made when a withdrawal offer is open for the Fund.

The Fund is deemed to an "illiquid" Fund and withdrawal offers will be made in accordance with the Fund's constitution and the Corporations Act.

Full information regarding withdrawal arrangements for the Fund are detailed in Sections 3.8 and 5.2 of the PDS issued 24 September 2007, however a summary of the key points are detailed below.

Although the Fund is illiquid, the Manager intends to provide investors with a withdrawal offer following the completion of each development project undertaken by the Fund.

The withdrawal offer will be made in accordance with the relevant provisions of the Corporations Act and the Fund's Constitution.

The Manager may not make any withdrawal offers if it does not consider it is in the best interests of all Investors to offer withdrawals at any point in time.

If the Manager receives a withdrawal request before it makes a withdrawal offer, then it may treat the request as an acceptance of the next offer, effective as at the time an offer is made.

In the event that the amount of acceptances for a withdrawal offer exceeds the money available to satisfy the withdrawal requests specified in the offer, the requests must be satisfied proportionately, in accordance with the requirements of the Corporations Act.

No withdrawal request made under the withdrawal offer will be satisfied while the offer is still open, and only one withdrawal offer will be open at any one time.

The minimum withdrawal amount an investor may request is $1,000. However, the actual amount received by the Investor may be less than $1,000 depending on the level of withdrawal requests received. The Manager may, however, accept a withdrawal request of less than $1,000 where the request relates to the remaining balance of the Investor's holding in the Fund.