



CHARTERED ACCOUNTANTS

**INDEPENDENT AUDITOR'S ASSURANCE REPORT IN
RELATION TO BENCHMARK INFORMATION TO THE
TRUSTEE FOR DEBENTURE HOLDERS
OF NORTH STATE FINANCE LTD**

Scope

This report has been prepared for North State Finance Ltd to report to the trustee for debenture holders and the Australian Securities and Investments Commission ("ASIC"). This report is intended for limited circulation and should not be provided to persons other than the trustee and ASIC without our consent.

We have:

- (a) audited the design and operating effectiveness of certain internal controls over the benchmark information appearing on pages 4 to 12 of the prospectus of the Company dated 23 November 2010 and the supplementary prospectus No2 dated 4 March 2011, ("the Benchmark Information") to support the opinion below; and
- (b) reviewed the disclosure of certain Benchmark Information to support the conclusion below.

Directors' responsibilities

The directors of the Company are responsible for the preparation and presentation of the Benchmark Information. The directors are also responsible for establishing and maintaining internal controls relevant to the preparation of the Benchmark Information, and for monitoring compliance with the benchmarks.

Auditor's responsibilities

Audit of controls over benchmarks

Our responsibility is to express an opinion on the adequacy of design and operating effectiveness of the internal controls in relation to the equity ratio of the Company (being the ratio of total equity to the sum of total equity and liabilities), cash flow projections of the Company and lending by the Company that are relevant to achieving the control objectives in the opinion below.

Our procedures have been conducted in accordance with applicable Standards on Assurance Engagements issued by the Auditing and Assurance Standards Board, except that the effect of events occurring after 23 November 2010 up to the date of this report have not been considered. The Standards on Assurance Engagements require that we comply with the relevant ethical requirements relating to assurance engagements and plan and perform the audit to obtain reasonable assurance whether the internal controls have been designed and operated effectively to achieve the control objectives in the opinion below. Our procedures have been undertaken to form an opinion whether in all material respects, the internal controls in relation to the equity ratio of the Company, cash flow projections of the Company and lending by the Company were adequately designed and operated effectively to support the opinion below.

Because of the inherent limitations of any internal control structure it is possible that fraud or errors may occur and not be detected. We have not audited the overall internal control structure and no opinion is expressed as to its effectiveness. An audit is not designed to detect all weaknesses in control procedures or all instances of noncompliance as it is not performed continuously throughout the period and the tests performed are on a sample basis having regard to the nature and size of the Company.

Any projection of the evaluation of internal control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Review of benchmarks

Our responsibility is to express a conclusion on certain disclosures in relation to the rollover approach, the existence of a credit rating, on lending of funds and the value of property security, based on a review. We conducted our review in accordance with applicable Standards on Assurance Engagements, except that the effect of events occurring after 23 November 2010 up to the date of this report have not been considered. Our review was conducted, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the matters specified in the conclusion below are not in accordance with the relevant paragraphs of ASIC Regulatory Guide 69 *Debentures and unsecured notes: improving disclosure for retail investors* ("RG 69").

A review is limited primarily to inquiries of company personnel, review of documented policies, and analytical procedures applied to relevant financial data. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the matters that are subject to a review.

Opinion on controls

In our opinion, in all material respects, the internal controls of the Company were adequately designed and operated effectively during the period from 1 July 2010 to 30 June 2011 to achieve the control objectives below:

- (a) The equity ratio of the Company was appropriately monitored and there were no instances where the ratio was less than 8% ;
- (b) The Company had at all times a cash flow projection covering at least the following 3 months in accordance with RG 69.38;
- (c) The Company had calculated the cash flow projections referred to in (b) on the basis of the assumptions the Company adopted for those projections;
- (d) There were no loans relating to development property and 80% of the latest market valuation for other loans were met; and
- (e) There were no loans to property developers.

Review conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

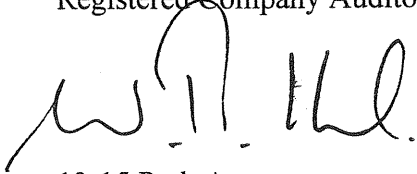
(a) The disclosure of:

- (i) The rollover approach in the Benchmark Information;
- (ii) Where the Company on-lends funds, policies and other information provided in the Benchmark Information in relation to loans and lending (including lending to related parties); and
- (iii) Where the Company lent money for property-related activities, policies and other information provided in the Benchmark Information in relation to the value of property security,

were not presented, in all material respects, in accordance with RG 69.45, RG 69.58—RG 69.60 and RG 69.68; and

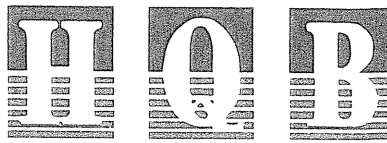
(b) The Company does not have a current credit rating by an ASIC recognised ratings agency in accordance with RG 69.49 (unless the lack of a current credit rating by an ASIC recognised ratings agency was identified and reported in the Benchmark Information).

HQB Chartered Accountants
WB HERD – Partner in HQB Chartered Accountants
Registered Company Auditor No4151



13-15 Park Avenue
Coffs Harbour

Dated: 15 September 2011



CHARTERED ACCOUNTANTS

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Permanent Trustee Company Limited
Level 3
530 Collins Street
MELBOURNE VIC 3000

North State Finance Limited
ACN 003 959 126
Trust Deed

In accordance with Clause 6.03 of the Trust Deed dated 26 May 1993 I report:

- a) That as at 30 June 2011, the maximum amount of Debenture Stock and/or Notes (combined) which may be issued by the Company, without breaching the Limitations contained in clause 7 of the Trust Deed was \$63,286,833.
- b) That in the period between the 30 June 2011 and the date of this report, I have not become aware of any material circumstances which would, if taken into account at the date of this report, affect the amounts of Debenture Stock and/or Notes which may be issued without breaching the Limitations.

Yours sincerely,
HQB Chartered Accountants
WB HERD – Partner in HQB Chartered Accountants
Registered Company Auditor No4151

A handwritten signature in black ink, appearing to read 'WB Herd'.

13-15 Park Avenue
Coffs Harbour

Dated: 15 September 2011