

## MAB AMERICAN PROPERTY REIT INC (“MAB Inc”)

### ASIC Regulatory Guide 69 – Benchmark Disclosures 30 June 2010

To assist with each investor's own risk assessment, ASIC has developed 8 specific disclosure benchmarks. These benchmarks and their application to MAB Inc are outlined in the table below:

#### What are the benchmarks and are they applicable to MAB Inc?

General Benchmarks for all issuers of unlisted notes	1. Equity Capital Ratio	Benchmarks 1 and 2 address the issuer's financial structure and ability to meet loan obligations on time.	Benchmarks 1 through 4 apply to MAB Inc.
	2. Liquidity		
	3. Rollovers	Benchmark 3 addresses the transparency of the issuer's approach to rollovers of investments.	
	4. Debt Maturity	Benchmark 4 addresses the debt maturity profile of the issuer and associated interest rates.	
Additional benchmarks for lenders	5. Loan portfolio	Benchmark 5 addresses the issuer's lending practices.	Benchmarks 5 and 6 are not applicable to MAB Inc.
	6. Related party transactions	Benchmark 6 addresses a specific area of lending risk.	
Additional benchmarks for property-related notes	7. Valuations	Benchmark 7 and 8 addresses the issuer's property related practices.	Benchmark 7 applies to MAB Inc.
	8. Lending principles- loan to valuation ratios.		Benchmark 8 is not applicable to MAB Inc.

## Does MAB American Property REIT Inc comply with the Benchmarks?

Benchmark	Comply	Further details
1. Is total equity greater than 8% of the sum of total equity and total debt?	Yes	See 'Benchmark 1: Equity' on page 2.
2. Does MAB Inc have sufficient liquidity to meet projected cash flows over a 3 month time horizon?	Yes	See 'Benchmark 2: Liquidity' on page 3.
3. Does MAB Inc disclose its approach to rollovers?	Yes.	See 'Benchmark 3: Rollovers' on page 3.
4. Does MAB Inc disclose its debt maturity profile and associated interest rates?	Yes	See 'Benchmark 4: Debt Maturity' on page 4.
5. Does MAB Inc disclose its loan portfolio and lending practices?	Not applicable	See 'Benchmarks 5, 6 & 8' on page 7.
6. Does MAB Inc disclose related party lending practices?	Not applicable	See 'Benchmarks 5, 6 & 8' on page 7.
7. Does MAB Inc comply with all property valuation benchmark disclosures?	No	See 'Benchmark 7: Valuations' on page 7.
8. Does MAB Inc maintain adequate loan-to-valuation ratios regarding property related activities?	Not applicable	See 'Benchmarks 5, 6 & 8' on page 7.

### Benchmark 1: Equity

In accordance with the combined Offer Document, investors have acquired units in MAB International Retail Trust ("MIRT") and Notes in MAB American Property REIT, Inc. MAB Inc is capitalised with a combination of debt and equity and returns on capital are funded from the rental income generated by each property investment. MIRT indirectly acquired the ordinary share capital issued by MAB Inc.

MAB Inc is the issuer of the Notes and is capitalised with a combination of debt and equity which was applied to the acquisition of 5 neighbourhood shopping centres. These centres are all anchored by supermarkets. Rental income returns from these investments fund the interest payments on the notes.

The purpose of the equity benchmark is to assist investors in assessing capital risk to the Notes by measuring the issuer's ratio equity to total capital. A Note issuer with a lower equity ratio is likely to be considered as posing a greater capital risk in relation to the value of the notes than an issuer with a higher equity ratio.

The Equity benchmark requires that MAB Inc's equity ratio should be maintained at 8.00% given that MAB Inc's operations are predominately property investment and not property development. MAB Inc's equity ratio is calculated below. The information is sourced from MAB Inc's USGAAP audited accounts as at 30 June 2010. For the purpose of the following calculation, the USGAAP audited accounts have been converted to comply with AIFRS.

Equity Capital

\_\_\_\_\_  
 Total Liabilities + Equity Capital

AU\$11,986,528 = 18.76%

\_\_\_\_\_  
 AU\$51,884,408 + AU\$11,986,528

MAB Inc's equity ratio exceeds the minimum benchmark requirement by 10.76%.

## Benchmark 2: Liquidity

MAB Inc manages liquidity risk by maintaining a financial model which contains cash flow projections until beyond the Maturity of the Notes. This cash flow model is updated and reviewed on a monthly basis in accordance with the cash flow management policy. The purpose of the cash flow management policy is to formally assess and manage liquidity risk.

In accordance with the liquidity benchmark, MAB Inc ensures that at all times it maintains cash flow estimates with a view to ensuring that sufficient cash or cash equivalents are on hand to meet projected cash needs over the subsequent 3 month period. This process allows the directors to properly assess any short term cash flow risk and take any action if required.

Forecasts are based on a number of assumptions which were outlined in section 8 of the original PDS and more recently in Section 6 of the Information Memorandum dated 1 March 2010.

With respect to the Notes, the inability to meet cash flow obligations can adversely affect the serviceability of interest payments and ultimately, the repayment of principal.

### *Servicing Interest Payments*

The portfolio, comprised of grocery anchored retail centres, provides a reasonably stable cash flow, in that it has a portfolio occupancy level of 91% by area and a weighted average lease expiry profile by area of 5.6 years from 1 July 2010. This cash flow services the quarterly interest payments on the Notes.

In addition to the cash flow management process the additional measures utilised in assessing liquidity risk are:

- a) Portfolio senior debt interest cover (1.33 times for the period from 1 January 2010 to 30 June 2010); and
- b) Portfolio senior debt to asset value ratio (81.97% as at 30 June 2010).

### *Principal repayment & term of the Notes*

Notes are due to be repaid by MAB Inc at maturity on 15 December 2013. It is anticipated that principal will be repaid from either:

- a) Proceeds from the disposal of the underlying assets;
- b) Proceeds from a new issue of notes for an additional term;
- c) Proceeds from the drawdown of additional senior debt;
- d) Proceeds from an additional equity raising; or
- e) A combination of any or all of the above.

The Responsible Entity and MAB Inc will consider the most appropriate method of funding the repayment with respect to the intention of Investors at the time closer to the maturity of the Notes. However, Investors should be aware that in certain unfavourable circumstances Investors risk losing some or all of their principal investment. Risk Factors in relation to the Notes are outlined in section 11.0, Risk Factors, of the Offer Document.

Note Holders should be aware that the Notes rank behind the interests of senior debt providers.

## Benchmark 3: Rollovers

This benchmark requires clear disclosure of the Issuer's approach to rollovers. The Notes have a fixed term and may not be rolled over and therefore this benchmark does not apply to the Notes. Any additional issue of Notes would require a new prospectus in accordance with the requirements of the Corporations Act 2001.

### Benchmark 4: Debt Maturity

The purpose of this benchmark is to assist investors in understanding how the business is funded in terms of the nature, timing and cost of the issuer's debt obligations. A schedule of the debt maturity is provided below.

Asset Funded	Debt Facility Provider	Facility Limit US\$	Amount Drawn US\$	Facility Available US\$	Loan Type	Facility Maturity Date	Interest Rate	
Terraces at Park Place	A	10,490,359	10,490,359	-	Amortising	Dec-13	6.10%	Fixed
Eastfield Village	B	8,272,911	8,272,911	-	Amortising	Apr-25	6.18%	Fixed
Summerville Plaza	C	6,309,230	6,309,230	-	Amortising	Apr-13	5.40%	Fixed
Cheshire Commons	D	2,824,308	2,824,308	-	Amortising	Jul-24	6.35%	Fixed
Cheshire Place	E	3,541,756	3,541,756	-	Interest Only	Oct-11	8.01%	Fixed
Grandview Plaza	E	3,600,000	3,600,000	-	Interest Only	Oct-11	8.33%	Fixed
Eastfield Village - Building D	E	1,193,400	1,193,400	-	Interest Only	Oct-11	8.09%	Fixed
N/A	E	3,800,000	3,200,468	599,532	Capitalising	Oct-11	11% over US LIBOR*	Variable
<b>Total Senior Debt</b>		<b>40,031,964</b>	<b>39,432,432</b>	<b>\$599,532</b>				
Investor Notes	Noteholders	2,970,273	2,970,273	\$0	Interest Only	Dec-13	7.44%	Fixed
<b>Total Debt</b>		<b>43,002,237</b>	<b>42,402,705</b>	<b>\$599,532</b>				

\*US LIBOR is the US Dollar London Interbank Offered Rate and this rate is variable. The floating rate was approximately 0.55% at 30 June 2010.

Debt gearing has the potential to enhance investor returns, whilst increasing the potential for capital gains and capital losses. There are six debt capital providers which have partially funded the acquisition of assets within MIRT and all facilities have a fixed term to maturity. The expiry of the facilities can be brought forward and financial penalties applied if there is a breach of covenants under the loan documents.

Any requirement to repay or refinance debt creates a capital funding and liquidity risk, particularly in an environment where asset prices are declining. For instance, in 2011, when the first of the loan facilities matures, MAB Funds would be required to either refinance or extend the existing debt facilities beyond the current maturity dates, or alternatively replace the debt with equity capital. In the event that these options are not achievable, asset sales or further equity capital may be required by the existing lenders to facilitate repayment at the facility maturity date. There is also a risk that the refinancing available at this time is on less favourable terms.

### Facility Covenants:

Any facility covenant breach has the potential to accelerate the timing of the principal repayment, impose penalty interest and other costs and may require facility re-negotiation which also has the potential to result in less favourable financing terms such as higher margins. Lenders also have the right to enforce their security and cause a sale of the assets to recover their debt.

#### Facility Provider E (Australian Lender):

As advised in our letters to unit holders of 13 May 2010 and previous correspondence, MAB Funds has undertaken a capital raising for MIRT, in order to contribute equity to MAB Inc and repay debt owed to Facility Provider E, provide settlement funds for "building E" at Eastfield Village Shopping Centre, cash collateral for settlement of interest rate swaps as well as provide for additional working capital.

The capital raising offer closed on 30 April 2010 and resulted in A\$3.802 million being subscribed for out of the total of \$7.5 million sought. These funds together with the draw down on a second ranking finance facility provided by

Facility Provider E, enabled the repayment of \$US 5.0 million in senior debt as required by that lender to remedy a continuing Loan to Value Ratio Default. This facility enables interest to be capitalised up to a limit of US\$3.8 million, and it should be noted that whilst this facility remains in place cash lock up provisions will apply preventing distributions to be paid to Unitholders. Interest Payments to Note Holders are permitted and expected are to continue.

We are pleased to report that, as a result of the capital raising, the revised terms of the Australian Lender senior debt facility have been fully documented and that MAB Inc is complying with the Australian Lender covenants based on unaudited management accounts.

It is noted that MAB Inc continues to service the Australian Lender interest rate swaps at fixed rates of approximately 5%. The face value of the swaps is US\$13,335,156 which is equal to the original amount Australian Lender debt drawn. MAB Inc continues to service the interest rate swaps for the full amount of US\$13,335,156 even though US\$5,000,000 of the debt has been restructured in accordance with the Australian Lender's requirements.

*Facility Provider A:*

There is a continuing default with Facility Provider A as a result of the decline in value of investment properties. The default is a result of a net worth covenant in relation to a limited guarantee provided by MAB American Property REIT Inc (MAB Inc).

The Net worth of MAB Inc as at 30 June 2010 based on audited accounts is US\$10.6 million compared to a covenant requirement of US\$20 million.

A waiver of a Net Worth covenant breach was requested earlier in 2010. MAB Funds has been negotiating the terms of waiver. The lender recently issued notice which has the effect waiving the default and any applicable penalty interest if a Letter of Credit with face value of US\$1,056,639 is issued to the Lender on or before September 6, 2010. MAB Funds highlighted this risk in the Information Memorandum dated 1 March 2010. It should be noted that Facility Provider E will have recourse to the Letter of Credit in the event of default under the loan documents.

The Australian Lender has agreed to be the issuer of the Letter of Credit and requires cash collateral for the full amount to be placed on deposit until such time as the Letter of Credit is returned. Negotiations with respect the terminology of the Letter of Credit between MAB Inc, Facility Provider A, the Australian Lender and MAB Inc have taken longer than expected and as such MAB Inc is seeking an extension of the Waiver so as to facilitate a reasonable period for which capital can be raised to fund the cash collateral requirements. In the event that the extension is not obtained, MIRT may obtain a short term debt facility from an associate of MAB Funds with a view to issuing the Letter of Credit on or before the September 6, 2010. Under these circumstances the proceeds from the proposed capital raising would be applied to repay the loan rather than to be placed directly on deposit to secure the Letter of Credit.

MAB Inc also requires a waiver to be issued from the Australian Lender which enables the proceeds of the capital raising to be applied for a purpose other than to repay the second ranking facility issued by that lender (i.e. as cash collateral for the Letter of Credit. A draft of this waiver has now been received by MAB Funds.

Until such time as the documentation for the Letter of credit (or other equivalent form of security) and waiver is agreed, executed by all parties and issued to Facility Provider A prior to September 6, 2010 or later date if agreed, there is a risk that the lender imposes penalty interest, additional fees and expenses, accelerate the timing of the principal repayment and even cause the asset to be sold.

The key terms of the offer are expected to be consistent with that of the Information Memorandum Dated 1 March 2010.

## Benchmark 7: Valuations

The purpose of this benchmark is to provide investors with an understanding of the issuer's valuation policies where the issuer is involved in, or lends money for property related activities. Benchmark 7 requires that issuer's approach valuations in the following manner:

- a) Investment properties should be valued on an 'as is' basis;
- b) Issuers should have a clear policy on how often they obtain valuations, including how recent a valuation has to be when they make a new loan;
- c) Issuers should establish a panel of valuers and ensure that no one valuer conducts more than one third of the issuer's valuation work; and
- d) Appointment of valuers should be with the trustee's consent.

MAB Inc does not comply with this benchmark because it does not meet the requirements for item c). Further explanation is provided below. MAB Inc's valuation policy states the following:

- a) Investment property is to be valued on an as is basis.
- b) Independent valuations are to be obtained at a minimum of every two years and independent valuations for new investment property acquisitions are to be obtained and must be no more than twelve months old when issuing additional Notes.
- c) The Issuer has considered the possibility of establishing a panel of valuers and has determined that it is inefficient to comply with this benchmark due to fact that there are only five centres in the existing portfolio. Greater economies of scale are achieved for Investors if the individual properties are valued by a single group. The valuation policy states that the valuer may not conduct more than two consecutive valuations for each property, unless specifically requested by a senior financier and further that this policy is to be reviewed if the number of centres increase to ten or more.
- d) The valuation policy also requires that MAB Inc request the consent of the Trustee prior to the appointment of valuers.

The most recent independent property valuations are director valuations as at 30 June 2010. These are listed in the Table below and are consistent with the independent valuations completed in December 2009.

Asset	Valuation
The Terraces at Park Place, Pineville, Charlotte	US\$11,500,000
Eastfield Village, Huntersville, Charlotte	US\$15,000,000
Summerville Plaza, Summerville, Charleston	US\$9,400,000
Cheshire Commons, Cheshire Centre, Charlotte	US\$7,150,000
Cheshire Place, Cheshire Centre, Charlotte	US\$4,700,000
Grandview Plaza, Pfafftown, Winston-Salem	US\$3,975,000
<b>Total</b>	<b>US\$51,725,000</b>

Under the Australian Lender debt facility the next valuations are to be completed on or before 31 March 2011.

**Benchmarks 5, 6 & 8**

These benchmarks do not apply to MAB Inc because they relate to issuers who on lend the proceeds from the drawdown of the Notes to other entities for various purposes. MAB Inc has not on lent any proceeds from the Notes as it applied the proceeds from the Notes to the acquisition of investment property.