



December 2010 Investor Update

OVERVIEW OF MARKET CONDITIONS

We continue to hold the view that any rapid improvement in the NSW coastal property market will be slow. This sentiment continued over the second half of 2010. While research by RP Data to January 2011 found that capital growth in median prices in Yamba have grown by 8% (which is an improvement on last year) the consensus is that prices still are and will remain relatively flat in Yamba and the region.

Caravan and Camping visitors in NSW remains a stable market within the tourism industry and there has been little change since 2000 in terms of visitor numbers and length of stay. Recent adverse weather conditions in late 2010/2011 on the Eastern seaboard have had an impact on the market.

The Blue Dolphin Holiday Resort -55%

Operations

The Blue Dolphin Holiday Resort is leased to FreeSpirit Resorts until December 2013. Trading over summer was reasonable although trading over the Christmas period was affected by extreme weather conditions and some local flooding which cut roads and limited access to Yamba.

Capital Expenditure

The Co-owners are keen to ensure that the Blue Dolphin retains its premier status as Yamba's best holiday resort. In conjunction with FreeSpirit, the refurbishment and minor capital expenditure program continued over the past months with completion of the upgrading of the Family Villas and the Tropical Pool. Guest feedback regarding the upgrades and the overall service levels has been excellent. The recently installed jumping pillow is very popular with all ages.

There remain a number of areas within Blue Dolphin that will require upgrading or replacement.

With the sale of Yamba Waters Caravan Park having been completed in November 2009, the Co-owners may allocate additional funds (from the second instalment due in May 2011) towards capital expenditure over the next 12-36 months.

Essence of Yamba

In early 2010, a decision was taken by the Co-owners to undertake a review of the Stage 1 development of the Essence of Yamba which as unitholders may recall has already received development approval. The Master Plan was completed in the first half of 2010. Unfortunately, a commercial case for the viability of Stage 1 could not be mounted taking into account existing market conditions and investor requirements for coastal property. The Co-owners will continue to monitor the market. The Co-owners have approached the NSW Department of Planning seeking confirmation that the Concept and Project Approvals awarded for the Essence of Yamba are not subject to time limitations. We have advanced our discussions with the Department with a view to these approvals extending beyond July 2012.

Performance

The Fund's Net Tangible Assets (NTA) decreased to \$0.31 per unit at 31 December 2010 from \$0.39 per unit as at 30 June 2010. The decrease relates to impairment on the valuation of The Blue Dolphin as at 31 December 2010

FINANCIAL STATEMENTS

The Financial Statements for the half year to 31 December 2010 are available via the website at www.knightsgroup.com.au/knightscoastal

A valuation was commissioned in December 2010 and is incorporated in the half year financial statements and summarised below:

| | Fair Value as at 31 December 2010 | | Book Value Per KCLF * | Valuation Methodology |
|--------------|-----------------------------------|--------------|-----------------------|--|
| | 100% * | KCLF Share * | | |
| Blue Dolphin | 18,350 | 10,092 | 10,092 | Capitalisation methodology using market rents, Yield applied 10.0% |

* All figures are rounded to the nearest thousand

Material Events Post Reporting Period

Debt Facility

The Co-owners current debt facility for \$8 million with Westpac Banking Corporation (secured against the Blue Dolphin) expired on 31 December 2010 and was subsequently repaid on 31st January 2011 via refinancing with the Commonwealth Bank of Australia. The principal terms and conditions of the new facility are as follows:

Facility Limit: \$8,250,000

Term: 2 years

Repayment: \$47,500 per quarter for the first 12 months then interest only

Interest: 90 day BBSY plus line fee

Security; First mortgage over the Blue Dolphin land, and business mortgage over the assets and undertakings of the Blue Dolphin.

Distributions

Total distributions for the six months ending 31 December 2010 were 0.6 cents per unit, representing an annualised rate of 0.6%.

Future distributions will be adjusted to take into account the interest payments on the debt facility however, in line with previous commentary, forecast annualised distributions are expected to be maintained at 1.2% per annum.

Redemption availability

As outlined in the Product Disclosure Statements dated 19th October 2005 no redemption or exit facility will be offered during the life of the Fund until the Fund is wound up. However, investors will be able transfer their units and may participate in any withdrawal offers which are made during the life of the Fund.

The Fund does not have a fixed term. Within one month of the eight year anniversary of the Offer Closing Date, a meeting of unitholders will be convened so that they can vote on an ordinary resolution to either terminate or continue the life of the Fund.

Investor information

Ongoing communication and information relating to the Fund, will be updated via the Fund's website at www.knightsgroup.com.au/knightscostal The website also contains general information on the Fund such as property portfolio details, distribution/taxation information, news and reports.

Complaints

Knights Coastal Land Fund has an established policy for dealing with complaints. Investors wishing to complain should write to:

Knights Coastal Land Fund
c/- Fund BPO Pty Limited
GPO Box 4968
Sydney NSW 2001
Tel: 1300 133 451
Fax: +61 2 9251 3525

Valuestream and Fund BPO are members of an independent dispute resolution scheme, the Financial Ombudsman Service.

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We collect personal information to enable us to tailor our service to the needs of our customers. We only collect personal information directly from customers, for example through application or enquiry forms, letters and visits to our website or our office. If Investors discover that personal information we hold is inaccurate, incomplete or out of date, or if they no longer wish to receive material from the responsible entity, they should contact our Privacy Officer on the numbers listed below.

Responsible Entity

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Disclaimer

This document has been prepared by Valuestream Investment Management Ltd ABN 66 094 107 034 AFSL 246621 and Knights Capital Management Pty Ltd ABN 57 117 550 893 AFSL 306365 as Responsible Entity and Fund Manager respectively to the Knights Coastal Land Fund ARSN 115 858 047. The Responsible Entity and Fund Manager their associates related entities and directors do not guarantee the performance of the Knights Coastal Land Fund or the repayment of monies invested While every care has been exercised in the preparation of this document and the information is believed to be correct the Responsible Entity and the Fund Manger do not give any warranty as to the accuracy reliability or completeness of the information. Past performance is not an indication of future performance This document does not contain financial product advice, is provided for general information purposes only and does not have regard for the particular objectives financial situation or needs of any specific person who may read it and who should seek their own professional advice. The information contained in this document is current as at September 2009 and may change from time to time without notice