BDO

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 18, 300 Queen St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
AUSTRALIA

TO THE INVESTOR AS ADDRESSED

1 February 2012

EQUITITRUST INCOME FUND ARSN 089 079 854 ("EIF")
(RECEIVER APPOINTED) ("The Fund")

1. Introduction/Court Order

As you will be aware from previous correspondence and Equititrust Ltd's website, I was appointed as interim Receiver on 21 November 2011 and on 23 November 2011 as Receiver of the Fund assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution.

I attach a copy of the judgement in this respect which includes the two court orders setting out the terms of the appointments.

In summary, the Court has ordered that the Fund be wound up in accordance with its constitution. The constitution provides that the procedure for the winding up of the Fund is that the Manager must convert to money all Assets, deduct all proper costs and then distribute the money to each Member in proportion to the Member's interests in the Scheme.

The making of the orders followed an application by Equititrust Ltd (the responsible entity of the Fund) to the Supreme Court of Queensland to appoint a temporary replacement responsible entity to the Fund and if this was not approved to appoint a liquidator to wind up the Fund. The application was brought by the then directors of the responsible entity.

The judge refused the application for a temporary replacement responsible entity and ordered the Fund be wound up pursuant to the terms of its constitution as detailed in the attached court orders.

On 21 November 2011 the then directors of the responsible entity resigned during the course of the judge hearing the application. As that left the responsible entity without any directors and as there was a hearing in Sydney that day in relation to a winding up application against Equititrust Ltd with no one available to provide instructions, Mark McIvor, Stacey McIvor and Ross Honeyman were appointed as directors. Stacey McIvor subsequently resigned as a director on 16 December 2011 and, according to forms lodged with the ASIC, David Hickie was appointed on 12 January 2012.

This report summarises the key issues which have arisen since my appointment and the key steps taken by me since my appointment.

2. Secured creditors

There are two secured creditors that have the ability to appoint Receivers over the Fund assets at any time and who continue to reserve their rights in relation to same.

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Notwithstanding their ongoing rights in this respect, I have agreed with both banks, subject to certain conditions, to allow ongoing payments in respect of Fund expenses for the purposes of the winding up of the Fund. The first secured creditor has insisted on repayment at the earliest opportunity. Therefore, in order to allow for the orderly winding up of the Fund the bank with second priority has agreed to replace the first ranking secured creditor's bank guarantees totalling approximately $1.1M. It is hoped that the documentation of this arrangement will occur shortly.

The total debt to the banks, including the bank guarantees, is approximately $9.5M.

3. Staff/Consultants and Services Agreement

Immediately following my appointment, I reviewed the staffing levels (including consultants) with the CEO of Equititrust Limited and identified that substantial savings could be made in relation to the ongoing costs in this respect.

In the circumstances, I requested the CEO and Mark McIvor prepare a proposal for a planned reduction in staff/consultants and other costs for the purposes of the winding up for my approval.

Prior to my appointment the total expenses for the four months ended 31 October 2011 were $2.059M in this respect (an average of $514k per month and over $6M per annum).

Since my appointment and as a result of the review undertaken the costs were reduced to $147K per month with further reductions expected as properties are realised and further savings can be identified.

As the staff and consultants were not engaged directly by Equititrust Limited, it was agreed to document the arrangements by way of a services agreement between Equititrust Limited, GCP (HQ) Pty Ltd ("GCP")(the service provider), the Receiver and the previous service provider, ECG Administration Pty Ltd ("ECG").

As, prior to my appointment, there was no written agreement entered into regarding the provision of services, it was agreed to transfer all staff and consultants to GCP (a company setup by the CEO).

The agreement, which was executed on 20 December 2011, also provides that no amendments can be made to the staff/consultants engaged without my approval. Notwithstanding this, Mark McIvor advised the CEO that he had terminated him on 13 January 2012 and without any consultation with me. I am presently considering the position in this respect.

4. Draft Audited Accounts for the year ended 30 June 2011

Excerpts from the Fund's draft audited accounts as at 30 June 2011 follow in Sections 4.1 to 4.3 below. These figures are subject to review and sign-off by the Responsible Entity and auditors and may materially change. The Receiver has not audited or otherwise reviewed the figures for accuracy and does not accept any responsibility for the figures or any reliance placed on the figures.

The adopted value of the assets may materially change and are not fully supported by professional valuations.

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4.1 Statement of comprehensive income

	2011 $	2010 $
Revenue		
Interest income	30,327,145	36,378,860
Total revenue	**30,327,145**	**36,378,860**
Expenses		
Impairment losses - mortgage loans	(167,510,994)	(1,855,596)
Management fees - Responsible Entity	(2,810,045)	(4,460,638)
Scheme expenses reimbursed to Responsible Entity	(6,077,334)	-
Other expenses	(62,948)	-
Total expenses	**(176,461,321)**	**(6,316,234)**
Profit/(loss) from operating activities before finance costs	**(146,134,176)**	**30,062,626**
Finance costs		
Interest expense	(3,388,056)	(3,094,533)
Distributions to investors	(9,718,837)	(16,436,359)
Return on Responsible Entity's subordinated investment	-	(10,531,734)
Total finance costs	**(13,106,893)**	**(30,062,626)**
Decrease in obligations to unit holders	**(159,241,069)**	**-**
Represented by:		
Absorption by subordinated unitholders	40,000,000	-
Absorption by ordinary unitholders	119,241,069	-
Net comprehensive income	**-**	**-**

I comment on the key issues arising from the above, as follows:

- The impairment losses for the year are $167M (2010 $1.8M);

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- The management fee of 1.5% of gross assets plus GST is not payable to the Responsible Entity (Equititrust Ltd) when interest distributions are not being paid to investors. I understand payments ceased in February 2011 in this respect. The previous board had agreed to waive the $2.8M fee for the year ended 30 June 2011 as previously advised to investors however the current board has sought to reinstate this. I have asked Mark McIvor to provide an explanation in this respect however his reply is awaited;
- When the management fee is no longer payable then pursuant to the Fund's constitution, the Responsible Entity is entitled to reimbursement of expenses. Expenses totalled $6M in the 2011 financial year in this respect compared to the management fee in the 2010 year of $4.46M;
- Due to the subordinated nature of the Responsible Entity's $40M investment, the first $40M of impairment losses was absorbed by the Responsible Entity with the balance of $119M attributable to ordinary investors.

4.2 Statement of Financial Position

	2011 $	2010 $
Assets		
Cash and cash equivalents	77,321	19,800,774
Other receivables	144,038	1,668,485
Mortgage loans and accrued interest	106,480,922	259,675,256
Total assets	**106,702,281**	**281,144,515**
Liabilities		
Financial liabilities measured at amortised cost:		
Overdraft	233,444	-
Accounts payable	3,850,821	1,417,578
Distributions payable	140,407	1,970,639
Interest bearing liabilities	18,083,722	35,000,000
Total liabilities (excluding net assets attributable to investors)	**22,308,394**	**38,388,217**
Net assets attributable to investors - liability	**84,393,787**	**242,756,198**
Net assets	**100**	**100**
Equity	**100**	**100**

I comment on the key issues arising from the above, as follows:

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- Mortgage loans and investments were written down to $106M at the year end with net assets attributable to investors of $84M (2010 $242M);
- The secured creditors were reduced from $35M to $18M during the year. Since the year end, NAB's facilities have been reduced from $15M to $8.4M.

4.3 Statement of Cash Flows

	2011 $	2010 $
Cash flows from operating activities		
Interest received - mortgage loans	5,283,080	32,705,888
Interest received - cash and cash equivalents	259,176	457,432
Distributions paid to investors	(11,549,069)	(17,342,774)
Interest paid	(3,388,056)	(3,225,131)
Return on Responsible Entity's subordinated investment	-	(13,244,244)
Management fee	-	(4,070,936)
Scheme expenses	(6,338,459)	-
Net cash flows (used in)/from operating activities	(15,733,328)	(4,719,765)
Cash flows from investing activities		
Advances on existing mortgage loans	(16,054,689)	(44,427,143)
Mortgage loans repaid	27,868,740	89,069,931
Net cash (used in) investing activities	11,814,051	44,642,788
Cash flow from financing activities		
Proceeds from issue of redeemable units - investors	3,034,319	6,914,051
Payments on redemption of redeemable units - investors	(2,155,661)	(10,675,129)
Proceeds from borrowings	2,583,722	-
Repayment of borrowings	(19,500,000)	(29,000,000)
Net cash from financing activities	(16,037,620)	(32,761,078)
Net increase in cash and cash equivalents	(19,956,897)	7,161,945
Cash and cash equivalents at 1 July	19,800,774	12,638,829
Cash and cash equivalents at 30 June	**(156,123)**	**19,800,774**