

TO INVESTORS

21 May 2014

EQUITRUST INCOME FUND ARSN 089 079 854 (RECEIVER APPOINTED) (“the Fund” or “EIF”)

I refer to my previous reports and now provide my 19th update to Investors since my appointment as Court appointed Receiver and person responsible for winding up the EIF on 21 November 2011.

1. Offer from Babgenta Pty Ltd

A number of investors have contacted our office this week expressing concern at having received an offer from Babgenta Pty Ltd (“Babgenta”) to purchase their units in the Fund and querying when a distribution is likely to be made to investors.

At this stage, I do not know how many investors have received this offer. I would appreciate investors advising by email to Daniel.tipman@bdo.com.au if they have received an offer from Babgenta. It would be useful if you could please note the name your unit holding is in and investor number (if known) in the email.

In respect of the offer and some of the events leading up to the offer being sent to investors, I note the following:

- I was contacted by Mr Steven Goakes, the director of Babgenta, by letter dated 24 April 2014 requesting a copy of the members’ register of the EIF. Mr Goakes advised that he intended making an offer to Investors and requested a copy of the register pursuant to section 173 of the *Corporations Act 2001 (Cth)* (‘the Act’).
- A copy of the register was not provided to Babgenta because the purpose for obtaining a copy of the register was a prescribed purpose under Regulation 2C.1.03 of the *Corporations Regulations 2001 (Cth)*. Mr Goakes was advised that he was able to inspect the register at our offices and that in our next report to investors, in order to keep Investors fully informed, we would advise investors of Babgenta’s intention to make an offer and request investors to contact our office if they wished to discuss further.
- Mr Goakes subsequently inspected the register at our offices on 6 May 2014 pursuant to section 173(1) of the Act. Prior to his supervised inspection of the register, I advised Mr Goakes that the Collingwood Park property had settled the day before and that it was my intention to make an interim distribution to investors of 5 cents in the dollar. I understand that the offer which has been made to investors is less than the interim distribution of 5 cents in the dollar which I foreshadowed to Mr Goakes. To subsequently offer investors less than the amount of the foreshadowed interim distribution (with this knowledge and without disclosing such information) is, in my opinion, unreasonable.
- During the course of the supervised inspection of the register, Mr Goakes was not allowed to copy any of the details or take notes. Given the number of calls we have received from investors advising of receipt of the offer, I do not know how Mr Goakes

could have recalled all of those names and addresses from his inspection and will query with him if he has otherwise received a copy of the register. If he has, the use of such information is potentially a breach of the provisions of the Act.

I have taken legal advice in relation to the offer and whether or not I would be obliged to transfer units in the fund to Babgenta if a compliant transfer form is received. To date, I have received one transfer form however it is incorrectly completed and not compliant.

There is no statutory obligation to register the transfer. There is also no separate obligation under the EIF Constitution to register the transfer; in fact, the Manager may refuse to register a transfer without assigning a reason (clause 10.1(f)). In light of this, and the advice which I have obtained, I have formed the view that it is not appropriate for me to register a transfer of units in circumstances where:

- (i) a transfer form does not comply with the relevant provisions of the Act;
- (ii) the Fund has been ordered to be wound up;
- (iii) the offer has been made prior to investors being made aware of the foreshadowed interim distribution of 5 cents in the dollar;
- (iv) the offer is less than the foreshadowed interim distribution; and
- (v) it is unclear how Babgenta has obtained the investors names and addresses (given the potential use of such information could amount to a breach of the provisions of the Act).

Accordingly, I do not intend to register a transfer of Investors unitholdings in the Fund unless I receive a compliant transfer form and I am satisfied (acting reasonably) that the Investor wishes the transfer to be registered which would require a positive indication from the Investor accompanied by a certificate of independent legal advice that the Investor has been advised in relation to the transfer and that the Investor understands the nature and effect of the transfer and wishes the transfer to be registered. If there remains any uncertainty as to the wishes of the Investor, I will consider making an application to the Court for directions.

For the avoidance of doubt, the above comments are not intended as an opinion as to the merits of the offer. My position (as set out above) is only in respect of whether I, as receiver of the property of the EIF, am obliged to register a transfer of units given all the circumstances. Investors should take their own advice regarding any offer to transfer units.

Outlined at section 5.1 of this report are further details of the interim distribution to be made to Investors in the immediate future. Accordingly, I encourage all Investors who have received an offer from Babgenta to consider the amount to be received from the interim distribution and seek advice from a trusted adviser as necessary.

2. Property Realisations

A summary of the status of the remaining properties to settle or be sold is provided below. As this is a public document and to ensure I do not prejudice completion of the contracts, I will not at this time identify individual contract values or expected realisable values.

- (i) Collingwood Park, QLD

I am pleased to advise that the Collingwood Park property settled on 5 May 2014. As the property has now settled, I am also able to advise that the property was sold for a total sum of \$10,773,000.

As noted in my previous reports, in addition to the contract price, the purchaser paid \$550,947.94 in extension fees for six 28 day extensions of a condition relating to obtaining satisfactory approvals and under the terms of the contract of sale.

(iii) Wurrina Cove, SA

As advised in my 18th report to Investors, the only remaining assets at Wurrina Cove are the Marina St Vincent head lease and three unsold berths. I confirm that the Marina St Vincent head lease is under contract and subject to the approval of the assignment of the head lease by the South Australian Department of Transport. I am hopeful that consent will be obtained from the South Australian Department of Transport within the next month with settlement scheduled 5 days thereafter.

(iv) Cornwallis, NSW

The land and business is currently subject to an offer that is being finalised.

(v) Rosea (Wongawallan, QLD)

As advised in my 18th report to Investors, the debtor has submitted a proposal to satisfy their obligations under a deed of settlement, which includes, inter alia, the sale of the Wongawallan property. The deed of settlement includes a number of parties including the Equititrust Premium Fund (Receivers and Managers Appointed) ('EPF'). Therefore, any proposal put forward by the debtor must be agreed and accepted between the parties. At this stage, no agreement has been reached in terms of acceptance of the debtor's proposal amongst the parties.

(vi) Gold Coast, QLD

As advised in my previous reports, this property is subject to possession proceedings and where mediation took place on 11 September 2013. As agreement was not reached the matter is proceeding to trial. The court has ordered a trial date to be set and this date will be finalised shortly dependent on the availability of the parties.

2.1 Legal Proceedings

As advised in my 18th report to Investors, there are several legal actions currently on foot. I am unable to provide specific details with respect to each matter and the expected outcome of same. However, I provide an overview below:

- An agreement is being finalised with the EPF to settle a number of matters including proceedings currently on foot in relation to funds held in our solicitors trust account following the sale of a property.
- Two claims have been filed against the same valuer for negligence and damages in excess of \$10 million. Leave to Proceed applications and Commercial List applications were heard on 24 April 2014. Notwithstanding that the defendants opposed the Leave to Proceed applications with respect to certain valuations, the judge granted leave to proceed for all valuations and ordered that the proceedings be placed on the Commercial List (note the purpose of the Commercial List is to effect the expeditious resolution of commercial matters).

The defendant is required to file an amended defence with respect to one of the matters before the week ending 31 May 2014, failure of which will result in the matter being brought back before the Court. An amended defence has been received with respect to the other matter with a reply currently being prepared. Any amount

recoverable with respect to the claims will be sought against a professional indemnity insurance policy.

- Two other claims have been filed against separate valuers for negligence and damages. Expert reports have been received for both properties with amended claims and statement of claims now being prepared to establish the loss or damage suffered by the EIF as a result of relying on the valuations at the time of advancing the loans.
- Proceedings are ongoing against a bankrupt/related parties to realise an interest in the surplus proceeds that have been realised from the sale of a property. This is likely to result in a substantial recovery for the Fund. Negotiations are ongoing with several parties who may have an interest in the funds held by the Court.

Given the nature of these matters, they are likely to take up to eighteen months to resolve. However, it is expected that the actions will realise several million dollars for the benefit of Investors.

3. Creditor Claims

3.1 Secured Creditors

As advised in my 18th report to Investors, secured creditors' claims have been discharged, with the exception of approximately \$989,000 in respect of bank guarantees issued by the National Australia Bank. The bank guarantees support bonds held by two Councils with respect to certain development sites.

As previously advised, it has been determined that it is not commercial to complete the outstanding works as the costs of the works are likely to significantly exceed the value of the bonds. It is expected that the bonds will be called upon by the two councils in due course.

3.2 Other Creditors

As previously advised, there are a number of creditors that are required to be paid (or funds retained) before a distribution is made to Investors, which include:

- Rates and land tax against certain properties to be realised;
- Trade creditors, which relate to liabilities necessarily incurred in the winding up of the Fund;
- Any other creditors outstanding at the date of my appointment; and
- Receiver's remuneration and outlays.

3.3 Claims by the Liquidators of Equititrust Limited ('EL')

As advised in my 18th update to Investors, I lodged an application with the Supreme Court of Queensland on 24 July 2013 appealing the decision of the Liquidators of EL (Hall Chadwick) to adjudicate on a proof of debt lodged by the Fund. The matter was heard on 5 December 2013 and the Court determined that the Liquidators had no right to rule on the proof of debt. The Court also awarded costs against the Liquidators.

I am endeavouring to resolve a claim against the Liquidators for the costs incurred in relation to the application in addition to resolving any other claims between the Fund and the Liquidators in respect of the amount owing at the date of their appointment (where I consider monies are

owing to the Fund) and any amount due to the Liquidators after their appointment in relation to costs reasonably and properly incurred by them pursuant to the terms of the Fund's constitution.

A meeting with the Liquidators was held on 22 April 2014 with a view to agreeing to a procedure to resolve the outstanding issues and claims promptly. Negotiations are ongoing as to the procedure to be adopted to bring about a resolution of the claims.

4. Receipts and Payments

I provide below a summary of the Receipts and Payments of the Fund for the period from 19 March 2014 to 20 May 2014.

Summary of Receipts and Payments for the Period		
19 March 2014 to 20 May 2014		
	\$	\$
Opening Cash at Bank		9,084,456.20
Receipts		
Interest Income		31,310.34
<i>Loan Recoveries:</i>		
Corymbia Corporation Pty Ltd	10,695,376.95	
Summer Hill Business Estate Pty Ltd	18,237.41	10,713,614.36
GST Refund		4,986.15
Rural Security Holdings Pty Ltd - costs order		54,665.26
Total Receipts		10,804,576.11
Payments		
Bank Charges		32.60
Bank Guarantee/cash bond		28,440.06
<i>Distressed Loan Funding:</i>		
Boothers Pty Ltd	43,315.25	
Corymbia Corporation Pty Ltd	279,713.99	
Corymbia Estates Pty Ltd	13,891.24	
Graham Spottiswood (A Bankrupt)	56,928.01	
Kele Property Group (Port Macquarie) Pty Ltd	1,100.00	
National Resorts	44,389.38	
Western Land Corporation	5,317.95	
Wirrina Cove	326,913.59	
Windsor Turf Pty Ltd	23,236.97	794,806.38
IT expenses		8,651.50
Legal Fees		103,294.30
Printing and Stationery		1,320.10
Total Payments		936,544.94

Closing Cash at Bank 18,952,487.37

The 'Distressed Loan Funding' for Corymbia Corporation Pty Ltd includes:

- Agent's commission on the sale of the property of approximately \$170,000
- Land tax of approximately \$25,500
- Legal fees of approximately \$85,000 in relation to proceedings against the valuer for negligence and damages

The 'Distressed Loan Funding' for Wirrina Corporation Pty Ltd includes:

- An advance to Wirrina Corporation Pty Ltd to extinguish the GST/PAYG liability for the quarter ending 31 December 2013 of approximately \$225,000
- Advances to Wirrina Corporation Pty Ltd to cover accounts payable relating to the period prior to the settlement of the Wirrina Resort and Conference Centre of approximately \$35,000
- Legal fees of approximately \$67,000

The 'Distressed Loan Funding' for the remaining loans was primarily related to legal fees.

The incurring of these costs is considered essential in terms of successfully realising the assets subject to the Fund's securities.

5. Estimated Return to Investors

I provide below an estimated return to Investors of between 11 and 12 cents in the dollar as at 20 May 2014 as follows:

	Low	High
	\$000's	\$000's
Cash at Bank	18,952	18,952
Estimated selling prices	5,400	6,350
<i>Less:</i>		
Bank guarantees	(989)	(989)
Selling costs (3.5% of sale price)	(189)	(222)
Other unsecured creditors	(800)	(600)
Receiver's fees and outlays	(503)	(503)
Estimated net amount available to Investors as at 20 May 2014	21,871	22,988
Total investor units	193,916,000	193,916,000
Estimated return in the dollar	0.11	0.12

The above table does not take into account future operating costs, future Receiver's fees and future rates and land tax. It also excludes any legal recoveries against borrowers, valuers or other third parties.

5.1 Interim Distribution to Investors

As advised in previous reports, the timing of an interim distribution to investors was dependent on the settlement of the Collingwood Park property and/or the resolution of the claims with the Liquidators.

As advised previously in this report, the Collingwood Park property settled on 5 May 2014 resulting in current cash at bank of \$18.9M.

Please note, in estimating the funds that are available for distribution to Investors, I must take into account the secured creditors, land tax, rates, Receiver's fees and the unsecured creditors outstanding at the date of this report along with monies required in order to pay future liabilities that may arise in a worse case scenario.

A "buffer" is required to ensure all legal and other costs can be met, including, in the event costs may be awarded against the fund in relation to the legal proceedings on foot or other claims that may be brought against the fund.

I am therefore in a position to make an interim distribution of 5 cents in the dollar that amounts to approximately \$10M.

Further distributions will be made as the remaining properties are sold and legal proceedings resolved.

Unfortunately the investor management software used by the Fund was never designed to process a distribution of this nature and we are currently working with the software's designers to develop a solution. Following a verification process, I will be in a position to distribute the available funds to Investors on a per unit basis.

The distribution will be paid into the bank account which has previously been nominated by Investors. Investors will also receive an individualised letter detailing the interim distribution paid.

I am endeavouring to have the available funds distributed as soon as possible and anticipate that the funds will be distributed to Investors by mid June 2014 at the latest.

6. Receiver's Remuneration and Expenses

As notified to investors recently, I confirm that my fourth application for approval of my remuneration will be heard on 3 June 2014. This covers the period 1 November 2013 to 30 April 2014 and is for a total of \$457,668.50 plus GST, giving a total of \$503,435.35. Attached is a summary of my remuneration and outlays for this period.

A copy of my application in this respect has been posted to the websites www.equititrust.com.au and www.equititrustincomefund.com.au.

7. Updating your contact details

If Investors wish to update their postal address or bank details, a request should be submitted in writing to the following address.

Equititrust Income Fund (Receiver Appointed)

C/- BDO
GPO Box 457, Brisbane, QLD 4001

8. Queries

All queries should be directed to Daniel Tipman of this office who can be contacted as follows;

Phone: 07 3237 5999

Email: daniel.tipman@bdo.com.au

Should Investors have any queries in relation to the winding up of the Fund, they should contact my office on (07) 3237 5999 or by email at info@bdo.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read 'David Whyte'. The signature is fluid and cursive, with a long horizontal stroke extending to the left.

David Whyte
Receiver

Equitrust Income Fund (Receiver Appointed)
1 November 2013 to 30 April 2014

Employee	Position	Rate	Total Units	Total \$	Assets		Administration		Creditors		Investigation		Trade-on	
					Units	\$	Units	\$	Units	\$	Units	\$	Units	\$
Whyte, David	Partner	560.00	147.00	82,320.00	83.90	46,984.00	30.20	16,912.00	22.40	12,544.00	1.60	896.00	8.90	4,984.00
Jarrold, Clark	Partner	485.00	1.00	485.00	-	-	-	-	1.00	485.00	-	-	-	-
Jenkins, Craig	Partner	485.00	2.00	970.00	-	-	-	-	-	-	2.00	970.00	-	-
Griffin, Maree	Associate Director	430.00	0.20	86.00	0.20	86.00	-	-	-	-	-	-	-	-
Somerville, John	Senior Manager	425.00	450.70	191,547.50	361.60	153,680.00	46.80	19,890.00	37.30	15,852.50	-	-	5.00	2,125.00
Raphael, Alastair	Manager	390.00	0.90	351.00	0.90	351.00	-	-	-	-	-	-	-	-
Hogbin, Tom	Supervisor	280.00	2.50	700.00	2.50	700.00	-	-	-	-	-	-	-	-
Tipman, Daniel	Senior Accountant I	310.00	565.90	175,429.00	34.30	10,633.00	45.30	14,043.00	317.70	98,487.00	11.30	3,503.00	157.30	48,763.00
Withanage, Pawan	Senior Accountant II	220.00	0.10	22.00	0.10	22.00	-	-	-	-	-	-	-	-
Kennedy, Nicola	Accountant II	190.00	18.80	3,572.00	0.60	114.00	18.10	3,439.00	-	-	0.10	19.00	-	-
O'Brien, Dermot	Undergraduate	155.00	13.00	2,015.00	1.20	186.00	6.90	1,069.50	0.30	46.50	-	-	4.60	713.00
Watson, Sarah	Team Assistant	180.00	0.70	126.00	-	-	0.20	36.00	0.50	90.00	-	-	-	-
Richardson, Ashley	Junior Team Assistant	75.00	0.60	45.00	-	-	0.60	45.00	-	-	-	-	-	-
TOTAL			1,203.40	457,668.50	485.30	212,756.00	148.10	55,434.50	379.20	127,505.00	15.00	5,388.00	175.80	56,585.00
				GST	45,766.85									
				TOTAL INC GST	503,435.35									
AVERAGE HOURLY RATE				418.34	438.40	374.30	336.25	359.20	321.87					

DISBURSEMENT REPORT

Equitrust Income Fund (Receiver Appointed)
1 November 2013 to 30 April 2014

Item	\$
Travel	437.21
Printing/Photocopying	14,087.70
Courier	31.63
Searches	381.19
Postage	7,456.72
Archive Retrieval	17.00
Sub Total	22,411.45
GST	2,241.15
TOTAL	24,652.60