

Dear Investor or Interested Party:

I'm pleased with the progress we're making in the day-to-day operations. As of month end, we have in excess of \$67 million cash on hand (almost an increase of \$5 million over the beginning of the month). We still have in excess of \$30 million in assets to recover. As I mentioned in earlier letters, we are entering the more difficult collection areas. Of the \$30 million left to recover, \$10.5 million is currently in litigation; additionally, slightly less than \$4 million is delinquent. I'm still optimistic and think the staff is doing a tremendous job in the collection efforts, especially when one considers that the vast majority of the mortgage loans were delinquent and at the beginning of the case had never made the first payment.

I would like to focus on the distribution process this month and where this process will lead us.

On March 17, 2006, the court approved a motion where we would distribute 10% (\$0.10 on the dollar) to the unsecured investors in Brasota Mortgage Company, Inc., who filed only unsecured claims. Keep in mind that other distributions will be forthcoming at a later date.

As I write this letter, we're in the process of making arrangements for that distribution, and hope to have the distribution accomplished in the next couple of months. We regret that we are unable to give a definite date of the distribution for a number of reasons. For example, while the court has entered an order approving the distribution, there may be a dispute pertaining to its' entry. Also, we are still in the process of ensuring that all the claims are classified correctly; we are attempting to correct addresses and find investors who have moved or relocated without notifying either the court or Brasota. We are also in the process of converting the waived secured claims into unsecured so that these creditors, too, may participate in the distribution.

The distribution process, while it might seem to be relatively simple, becomes convoluted strictly from a mechanical standpoint. In certain instances, individuals filed a single claim while the records of the Company may have shown three or four separate accounts for example, Mr. X, Mrs. X., the Family X Trust and even separately, the IRA of Mr. X. or Mrs. X.. These will have to be worked through. I would ask that when distributions are received, to the extent that the amount or the name differs from what you feel it should be, that you get back to us. Please allow a few days for the "dust to settle" in that possibly distribution may be affected by situations like the above and for that reason possibly more than one distribution may be sent to an investor covering individual investments.

Additionally, we have situations where certain beneficiaries may now be deceased. If an investor passes away after filing a proof of claim, in Florida the claim generally needs to be transferred to the personal representative (person in charge of administering the estate of the decedent). A Transfer of Claim should be filed with the bankruptcy court. If an investment was jointly held and one of the investors has passed away, generally the ownership of the claim/investment passes to the surviving holder of the claim by operation of law. There are many instances where it may be advisable for an investor's beneficiaries to contact their own counsel on these types of issues.

We also have instances where the Brasota records differ from the amount claimed by the investor. In these cases we will be paying currently the 10% distribution on the lower amount (i.e. either the amount in the Brasota records or the amount claimed, whichever is less). Omnibus Objection #3 which we are currently working on should handle the bulk of these types of differences.

The Bankruptcy Code requires that before a distribution is made to a claimant, their claim must not be "disputed". Thus, since we have objected to all secured claims, we have "disputed" those claims and those people who filed either secured claims or a claim which is reflecting a partially secured and partially unsecured claim will not be receiving distributions under this

particular motion. Again, there will be further distributions a later date and to the extent that those matters have been resolved, distributions will be made on those claims.

We attempted to simultaneously file objections to secured claims along with this motion to enable those individuals who felt that they were actually unsecured, to waive their secured status and hence participate in the distribution. As of this newsletter, of the \$33 million in claims that have been reflected as secured on the Brasota Mortgage books (approximately 570 claimants) over 300 have opted to be considered unsecured. Presently of the \$33 million in original secured claims, only approximately half in dollar amount are still claiming secured status.

Since the only monies that we will need to hold back or reserve are those funds required to handle secured claims and administrative costs, we anticipate that we will be requesting that the court allow us to make a substantial second distribution in the near future.

I call your attention to this because in recent weeks, we have noticed a marked increase in the number of claims being sold to the claims traders. The unsecureds have received letters from various groups requesting to purchase their claims for amounts currently in the mid-30 cent on the dollar range. As I've said before, the claims traders do have a legitimate business and purpose. If one needs to "lock-in" a loss in a given year, the sale of a claim to a claims trader can accomplish that. If one needs cash on an emergency basis and has no other source, then that, too, might be a reason to sell to a claims trader. Barring those two reasons, the success that this bankruptcy case has enjoyed generally is a consideration against such sale. Further, it has been brought to our attention that some of the sale to the claims traders are done "with recourse" (meaning that the traders in such instances can come back against the seller of the claim under certain circumstances). For example, certain purchase agreements indicate that if the purchaser does not receive the amount paid from the bankrupt estate, the person selling the claim is responsible for the shortfall plus interest. Should you decide to sell to a claims trader, **please contact one of your financial advisers, accountants, or attorneys before doing so.**

We are in the process of pulling together the bankruptcy plan for this case. So that there are no surprises, you should be aware that part of that plan will attempt to equalize the losses for the investors based on the length of time that they have been investors. For example, an investor who invested \$100,000 on January 20, 2005 and never received a distribution (interest check) will be receiving slightly more than investor who had invested \$100,000 prior to 2001 and received approximately \$40,000 in "interest payments" during the four year "look back" period provided for in the Bankruptcy Code. Please be aware that nothing has been finalized and we continue to review this portion of the plan process.

The rationale behind this formula is that the "interest payments" did not really come from the operations of the business but rather from the "new investor" funds. Such methods of equalization have at times been used in other bankruptcies where frauds were involved.

The legal justification for these potential redistributions are set out in section 548 of the Federal Bankruptcy Code and Section 629 of the Florida Statutes, which recaptures certain types of distributions made from insolvent companies during specified periods. The purpose of these laws is an attempt to equalize the creditors' burden of loss.

LITIGATION

Again, litigation continues to be the largest administrative cost. While this is true, the success rate in the collections more than justifies the expenditures we've made on litigation and collection efforts.

Some progress has been made on litigation this month and an update of the various litigation areas is as follows:

Receiver and Receiver's Attorney's Fees -- the receiver has returned the requested fees and at this point the only open area is those of the receiver's attorney's fees.

Clancy's -- the litigation has been successfully culminated with an overall settlement to the estate of just slightly less than \$1.3 million.

Secured Creditor Litigation -- we are still waiting on a ruling from the court as to whether the possession of the note is one of the requirements to perfect a secured creditor status. The court did rule in our favor on our ability to obtain an expert in Ponzi schemes.

The trial on this matter is now scheduled for May 18. While we move forward in trial preparation, we're still hopeful that at some point a mediated settlement could be achieved.

Hidden Hills Equestrian Center, Team Awesome, Inc. (Mastromarino) -- as indicated last month we did have a meeting with the borrower and their counsel. We have set a deadline of April 30th for significant progress to be made by the borrower to obtain refinance alternatives. We currently are proceeding with all our options, including foreclosure and/or sale of our notes and mortgages.

Westside Funeral Home -- mediation on this matter is now scheduled for May 12. As previously outlined, the basic disagreement is to the price of a piece of property on a contract (which was entered into prior to the bankruptcy) and the trustee's ability to reject the contract.

Thibodeau Litigation Regarding Connecticut Properties -- we continue to attempt to resolve this problem. At the current time, I would like to accomplish a sale of the property. It is low-income housing with alleged serious building code violations and outstanding tax delinquencies. The property is certainly not getting any more valuable as time passes. I would rather argue over the money after the property is sold than argue over ownership of a property that is declining in value.

Rutherford -- we are awaiting the return of \$20,000 in funds and a waiver of any claims they may have in the bankruptcy, at which time this case will be completed.

Coey -- we are scheduling mediation in this case. It remains to be seen whether this can be resolved through mediation.

Budget Inn of Bradenton, LLC -- this is a delinquent borrower with an outstanding principal balance of \$1.9 million. Our initial efforts to collect and/or foreclose were thwarted by the borrower filing a Chapter 11 proceeding. We submitted a bankruptcy plan to the courts attempting to force the sale of the property. While the court did not approve our bankruptcy plan, it has scheduled an auction or public sale of the property on June 28, 2006 at 9:30 AM. We also have the ability to "credit bid" our position, take control of the property and operation in order to minimize any loss exposure. We believe that all our options will provide us with an equitable resolution within the next 60-90 days.

Other Collection Litigation -- although I've not mentioned it in prior letters, typically at any point in time we have somewhere between 40 and 50 files in state court litigation in the collection process and/or foreclosures. The success rate on these has been very good in general and for every dollar that we spend in litigation on these cases we have received approximately eight dollars in return. These matters are handled by the Abel, Band law firm in Sarasota. They interface with Bob Davenport in our office and this has become a formidable team driving recoveries. Over the past 9 months approximate 80 delinquent loans have been sent to Abel,

Band for collections and of those 26 have been fully paid off and an additional 12 have worked out reinstatement plans.

During the month I have managed to get the e-mails somewhat back under control and I believe as I write this there are no e-mails outstanding.

As discussed early in his memo, the next 30 days in the distribution process are going to prove difficult. Please bear with us, remember that in sorting out the distributions, errors could have occurred in recording items in the Brasota records, recording items in the court claims register, and yes, even errors made by investors when submitting claims. Because there will be future distributions, there are no "fatal flaws" caused by errors in distribution number one. Please keep this in mind and work with us as we get the various errors corrected.

As always, if you wish to contact me, I can be reached at the Brasota offices (941) 746- 6119 or by e-mail at Jerry@brasota.com ; should you have questions directly related to claims matters please forward those questions to Laura Jeffries at Laura@Brasota.com , it may actually speed up your answers.. Laura works as my assistant and claims administrator for the case. If you have a problem, blame me; if there's been a solution to your problem, thank her.

Best regards,
Brasota Mortgage Company, Inc.

Jerry McHale

Gerard A. McHale Jr.
Chapter 11 Bankruptcy Trustee