<u>From Foundations Capital Limited, promoter of the Foundations Program PLC (the "Program")</u>

Dear Participants in the Program

Please find enclosed a copy of the consolidated audited financial statements for Foundations Program plc.

As with all audits, this is a snapshot of the condition of the company at a particular point, in this case the 30th of June 2009. The 2009 financial statements incorporate post balance sheet events that are required to be made based on evidencing of positions for the auditors. These post balance sheet events do not take into effect any contacts or arrangements that have not been formalised following the sign off of the financial statements. In this respect the Directors are pleased to provide you with an update on its strategy for the Program.

<u>Lending Facility</u>

The Program operates by borrowing money against assigned Participants assets that will be utilised by the Program in identifying suitable investments. The borrowing will then be investments that will deliver the Programs investment objectives. Obviously this has been a difficult time in this regard. In September 2008 Barclays removed the line of credit it had provided to the Program for the previous four and a half years. Since then the fund has sought to secure replacement lending facilities from other banks or financial institutions. As you are quite aware, the global crisis has seen the withdrawal of credit facilities and although some potential lenders were willing to take smaller positions, these would not have been sufficient to repay the outstanding loans to Barclays and to re-inflate the Program's portfolio to the levels anticipated by the drip feed investment model.

The Directors have been able to develop a lending facility that will transform the Program's borrowing model from reliance on a single bank to diversifying the counterparty risk and engaging multiple lenders by way of fixed term, fixed interest notes ("Notes"). These Note issues will then be bolstered by smaller loans provided by banks or financial institutions. This development will provide the Program with a robust diversified lending model.

Participant's assets are assigned to a wholly owned subsidiary of the Program; FPA Limited ("FPA"). FPA is entering into a Management Agreement with Brewer Financial Services ("Brewer"); a US based financial institution who will distribute the Note issues. Brewer have worked with the Board to develop an offering which meets the needs of certain sectors within their client market. During our discussions with Brewer it became apparent that financial institutions were being cautious in their approach to advancing credit facilities, however in recent weeks several US based trusts and family investment offices have agreed heads of terms that, in conjunction with other financial institutions, will provide a replacement lending facility by end of June 2010.

Portfolio

In order to repay the Barclays lending facility, the Program was obliged to realise its liquid assets. This led to a reduction in the portfolio from US$24 million to just less than $11 million. The residual illiquid investments consisted of;

- a selection of four Arch funds;
- an indirect holding in a UK student accommodation company; Club Easy, being held in concert with investments from several Arch Funds;
- a $1.2 million participating loan to a marina project in the USA (known as "Wydro"); and
- Wydro restructuring commission, amounting to US$1.25m included in the 2008 results.

The Program was also obliged to provide for fees payable to service providers.

Arch and Club Easy

Following intervention by the United Kingdom's FSA, the Arch Group was required to surrender its investment management of Arch funds to Spearpoint Limited ("Spearpoint"). Spearpoint are aggressively liquidating the Arch funds and structures although some funds would not be wound up for some 5 to 7 years. Further complications arose due to the Arch funds providing a mezzanine loan to the Club Easy investment.

The directors have negotiated a favourable solution, in respect of the Arch funds and Club Easy, with Spearpoint.

In exchange for the Arch funds, held in the Program's portfolio, and a 2 year payment schedule, Spearpoint have agreed to cancel the mezzanine loan. This will provide a once off appreciation in the value of the Program's Club Easy holding following the completion of the 2 year payment schedule.

By way of information, Club Easy was started in 1982. It has 2,600 student beds and manages another 1,100 beds for other institutions. Club Easy has a strong brand name and prides itself in averaging over 98% occupancy. It has a diverse property and geographical base with offices in Hull, Lincoln, Exeter, Loughborough, and Durham.

At the time of audit, the Arch/Club Easy agreement had not been finalised. The value of the Club Easy asset was excluded from the statements as the Club Easy Group was required to be valued at nil.

Wydro

The Directors of the Promoter waived their rights to structuring commission on an investment known as Wydro Limited (the "Wydro Note"), amounting to US$1.25m, in favour of the Program. The Program then provided the Wydro Note with a loan of US$1.2m at an interest rate of 18%. The issuer of the Wydro note has defaulted on their obligations to honour the structuring commission and in an attempt to protect the Program's loan it has had to restructure the Wydro Note with another investor. In undertaking this restructuring the Program has released its first charge over the assets of Wydro in favour of the new investor.

At the time of audit, the Program was unable to provide substantive evidence to support the restructuring and charge over the assets of Wydro and as such the investment has been excluded from the financial statements. The directors of the Program remain confident that this project will perform on its obligations.

Summary

The last eighteen months have been challenging. As a borrower it has been difficult for the Program fulfil its investment objectives in the prevailing credit markets. The fall of Arch was a major blow to our strategy. That said, with the completion of the Clubeasy deal, £7 million, and the performance of super yachts $1.2 million plus performance rights and interest, the Directors would argue that the portfolio exceeds the debt and therefore will be recovering any losses incurred during the period.

When the new combination of Note and small bank lending facilities take effect from June 2010, the Program will be able to operate from a position of strength. The re-inflation of the Program's portfolio to levels that were experienced prior to the withdrawal of the initial lending facility will enable the Program to rebuild the key components of the portfolio.

We have appreciated your patience and understanding in these difficult times, and look forward to rewarding you with solid performance going forward.

Date: 25 May 2010