

20 December 2011

Dear Unitholder

We are pleased to provide you with an update in relation to the Pacific First Mortgage Fund (the Fund). This includes an update on the recent failed attempt by Matthew Bransgrove and his client Phil Sullivan to take control of your Fund, the outlook for the property market and progress on the realisation of the Fund's assets.

Cancellation of the 9 December Bransgrove/Sullivan Unitholder meeting

Balmain Trilogy staff attended the meeting venue on 9 December 2011 to advise, thankfully, only a small number of Unitholders that the meeting had been cancelled by Mr Bransgrove. The cancellation of the meeting followed the withdrawal of Stacks Finance, the proposed new responsible entity of the Fund under the Bransgrove/Sullivan Proposal. Balmain Trilogy advised Unitholders immediately of the cancellation of the meeting on its website. We apologise to those Unitholders for the inconvenience that was unnecessarily created by Bransgrove/Sullivan by their failing to advise Unitholders of the cancellation.

Voting results

At the time the meeting was cancelled, Unitholders holding 46% of the Units on issue had lodged proxies and 95% of those votes were in favour of retaining Balmain Trilogy. This was an overwhelming rejection of the Bransgrove/Sullivan Proposal.

Balmain Trilogy appreciates the support it has received from Unitholders and remains committed to delivering the best outcomes for Unitholders.

Be aware of similar approaches

Unitholders should be aware that Sullivan and his associates may continue to seek to replace Balmain Trilogy as your manager with a manager that is more friendly toward or associated with Sullivan. The failed Bransgrove/Sullivan Proposal has demonstrated Sullivan's preparedness to try and regain control of your Fund.

If any unsolicited information is received by Unitholders in the coming months, you should immediately contact us to seek our views on such an approach. Rest assured we will vigorously defend any future attempts (no matter how disguised) by Sullivan and his associates to take control of your Fund.

Sullivan discontinues his action to have the ASIC examinations set aside

Phil Sullivan has filed a Notice of Discontinuance with the Federal Court to withdraw his action to have ASIC's examination of him with regards to his previous involvement in the management of the Fund set aside.

This paves the way for ASIC to commence its examinations of Mr Sullivan. Balmain Trilogy will conduct its own public examination of Mr Sullivan in early February.

Mortgage assets update

As we have communicated to Unitholders in recent months, the Fund has experienced first-hand the effects of the further deterioration in the market for completed residential units and vacant land.

The property markets in South East Queensland and the Gold Coast, in which 75% of the Fund's underlying security assets are based, have not stabilised and continue to decline. Together with the current economic climate, the ability to realise assets at fair market value or at the rate which we expected has been severely hampered. Despite the unfavourable market conditions, we have been able to realise a number of assets in the last three months, which enabled capital to be returned to Unitholders in September.

We expect that these unfavourable market conditions are also likely to lead to a significant decline in the impaired value of the Fund's larger security assets, which should be reflected in the December accounts. Balmain Trilogy remains committed and will continue to apply its resources to ensure that these assets are managed through these difficult market conditions.

As a result of the market dictating when assets can be realised, we advise all Unitholders that the next capital repayment will be delayed until approximately the first quarter of 2012. We hope Unitholders understand that this is a direct result of the current market conditions and the inability of the Fund to control certain assets due to its subordinated position (see below for further information).

While we understand the need for all Unitholders to have capital returned in a timely manner, Balmain Trilogy will not enter into a 'fire sale' of the Fund's assets, and is committed to achieving fair value on behalf of Unitholders. We anticipate that current market conditions will continue in the short to medium term.

We also reconfirm our commitment to Unitholders and advise that any unpaid part of the capital repayments originally forecasted for April and October 2011 will be excluded from the calculation of the gross assets of the Fund when calculating management fees.

Asset 32 (Mariner's Cove)

As detailed in the July 2011 Asset Review update, the Fund as second ranking mortgagee continued to be influenced by the desires of the first ranking mortgagee to realise the asset (the Property) in its current state. As such, following a demand by the first mortgagee, an Expression of Interest campaign was conducted.

Based on the results of that campaign, the first mortgagee required a sale to occur and a contract was exchanged for \$13 million in October 2011. The Fund in its subordinated second ranking position had no other choice but to follow the direction of the first ranking mortgagee. With the Fund unable to control the situation, a further impairment of \$14.4 million will be incurred resulting in a total loss on that asset of \$32 million.

Why was the Fund placed in such a limiting position?

- In April 2008, City Pacific Limited (City Pacific) granted a \$12 million loan facility to a company called SP Marina Pty Limited (SP Marina) to assist with the purchase of Mariner's Cove;
- SP Marina was 50% owned by City Pacific;
- The Fund did not have first ranking security. First ranking security was to the benefit of an unrelated lender who advanced \$20 million;

- City Pacific was apparently of the opinion that it was in the best interests of Unitholders to make the advance to a **related party** (settling on 4 April 2008) notwithstanding that:
 - a. only days earlier in March 2008 City Pacific had frozen redemption payments to Unitholders; and
 - b. the Fund had an outstanding debt owing to the CBA of over \$217 million.
- In mid-2008 City Pacific ceased paying distributions but still managed to find another \$4.9 million to advance to SP Marina in December 2008;
- As part of arranging this loan from itself (as responsible entity) to itself (as a 50% owner of SP Marina) City Pacific charged a fee of \$1 million; and
- The eventual sale of Mariner's Cove was at the discretion of the first ranking mortgagee. Neither Balmain Trilogy nor Trilogy had any capacity to influence the outcome.

City Pacific appeared comfortable with its actions, as per its 30 November 2008 Unitholder update, which stated:

“City Pacific may enter into other co-lending arrangements where it considers it is in the best interests of Unitholders”.

In summary, City Pacific (as responsible entity) advanced Unitholder monies towards a loan in a second ranking, subordinated position to assist a City Pacific 50% owned subsidiary to purchase an asset after the start of the global financial crisis. It could not, however, find any money to pay redemptions or distributions to Unitholders.

CBA finance facility

As a direct result of the slowdown in mortgage asset realisations and recent asset devaluations, a principal repayment of \$195,000 on the Fund's core finance facility was made on 20 October 2011. This was required by the CBA to ensure the finance facility did not exceed 10% of the Fund's gross mortgage assets. Further principal repayments will be required given the further impairments on Asset 32 (Mariner's Cove) and has been provisioned for in the Fund's accounts.

Asset 41 (Pacific Beach)

Balmain Trilogy advises Unitholders that the \$12 million mortgage facility in relation to Asset 41 has been repaid in full including all interest. In April 2010, we advised that Balmain Trilogy (together with senior lender Fortress) advanced monies to the purchaser of Asset 10 (Pacific Beach development site). This was done to protect the Fund's second ranking position and to facilitate the sale of Asset 10 for \$81.8 million. Despite the Fund's second ranking position, Balmain Trilogy was able to secure full repayment of the Fund's \$12 million prior to the repayment of Fortress' first ranking debt.

Martha Cove EOI

The Martha Cove Expression of Interest campaign closed on 10 November 2011. The open offering of the assets generated keen interest, with the appointed agents receiving more than 80 expressions.

As we wait for offers to be received and finalised from the shortlisted parties, we anticipate that a range of market offers and structures will be put forward for our consideration. Once we are able to review and compare final offers and structures, we will be in a position to advise Unitholders of our options to proceed. This will be conducted in the context of a wider strategy review regarding realisation of the remaining assets.

Hardship

The Fund's second hardship period closed on 30 September 2011. All applications and requested supporting information have been reviewed by Trilogy's Hardship Committee. Approved hardship redemptions will be undertaken at the prevailing net tangible asset value per unit.

As previously stated, unstable market conditions continue to affect the Fund's liquidity. As a result an allocation of \$500,000 has been made to the hardship redemption pool. Should the number of applications received exceed the allocated amount, applications will be prorated as permitted under the Fund's Hardship Policy. We will advise all hardship applicants of the outcome of their application in writing.

Due to liquidity constraints within the Fund, Balmain Trilogy will be unable to process any new hardship applications until further notice. If you would like to register your interest to apply for hardship in a future period, should the program be resumed, please notify Balmain Trilogy in writing, providing your Unitholder number, name, address and contact number and mail to Balmain Trilogy, GPO Box 548, Brisbane, QLD 4001.

Litigation

IMF (the Fund's litigation funder) has been in the process of investigating claims against City Pacific's former directors, officers and service providers. Orders for production of documents and examination summonses have been served to enable IMF to gather and review all information in relation to the activities of City Pacific in its capacity as Responsible Entity of the Fund, since 1998. This is a complex and critical step in the litigation process as it enables IMF and its legal advisers to establish the case against these parties.

Despite the production of documents beginning some time ago, the most recent documents were only produced to the court on 19 October 2011. Delays in launching proceedings are solely the function of the late production of third party documents and are not a reflection of the likely success or otherwise of any claims against City Pacific, its officers, directors or agents. The public examinations of Sullivan and others will commence on 2/3 February 2012.

Balmain Trilogy, Trilogy and IMF have not and will not abandon proceedings to bring those responsible for causing significant losses to the Fund to account. Unitholders must not be misled by comments made and/or material issued on this matter by any party other than Trilogy or Balmain Trilogy.

In addition to the litigation to be undertaken by IMF, Trilogy and Balmain Trilogy are investigating several other transactions that took place while City Pacific was Responsible Entity of the Fund. There are specific transactions that took place within this time which we believe are a direct breach of the Fund's Constitution, Compliance Plan and the Corporations Act.

Completed assets available for sale

We understand that many Unitholders are interested in purchasing the Fund's completed residential security assets. With many Unitholders residing in the vicinity of these assets, we have compiled a schedule of assets (attached) that are currently available on the market and that might be of interest to Unitholders. We ask only those Unitholders who are genuinely interested to contact the respective agents. These properties will also be listed on the Balmain Trilogy website and will be updated regularly.

IC nominations

Unitholders are currently being invited to nominate for the Fund's Investor Committee (IC). The assessment of candidates will commence in the New Year. Please contact Jodie Leckenby at Trilogy Funds Management at j.leckenby@trilogyfunds.com.au

Balmain Trilogy remains focused on the orderly realisation of assets and is aware of Unitholders' frustrations with the delay in capital repayments. We remain resolved to returning maximum capital value to Unitholders, avoiding fire sales of assets and continuing to improve and maintain assets so that they are capable of being sold at a proper market value. We will be advising Unitholders in the first quarter of the New Year as to our strategy for 2012 and beyond.

Please do not hesitate to contact the Balmain Trilogy Client Services team on Freecall 1800 194 500 or email contact@balmaintrilogy.com.au should you have any questions.

Yours sincerely,



Rodger Bacon
Joint Chief Executive



Andrew Griffin
Joint Chief Executive

SCHEDULE OF ASSETS AVAILABLE FOR SALE

ASSET

DETAIL



MARTHA COVE PRESTIGE

MORNINGTON PENINSULA, VIC

- Four completed houses are for sale at Martha Cove on the Mornington Peninsula. This stock consists of 2-storey, 3-bedroom terraces and single-storey, 2-bedroom houses. With direct access to the waterfront, marina and boardwalk, leases of marina berths are also available.
- Prices range from \$520,000-\$960,000
- Contact: Justin Hayson on 1800 669 918
- www.marthacoveprestige.com.au



WOODLANDS RETREAT

GUANABA, QLD

- Located in the Gold Coast hinterland approximately 30km from Surfers Paradise, there are serviced rural residential sites ready for development across 240 acres of land. Currently 21 rural acreage lots are available, ranging from 8 to 15 acres in size.
- Prices range from \$310,000 to \$520,000
- Contact: Patricia Box on 07 5570 7010 or 0417 644 457
- www.mcgrath.com.au



ILANAH AQUA

GOLD COAST, QLD

- Situated in Hope Island, this development has 15 recently-completed 3-bedroom units located across three detached three-storey buildings, each with an allocated car space
- Prices range from \$375,000 to \$405,000
- Contact: Lynne Flynn on 0412 643 682
- www.foxwood.com.au



WOODGROVE

WAKERLEY, QLD

- Stage 1 of a master planned community development consisting of 25 available detached and terrace houses. Houses are a range of three and four bedroom/two bath homes, each with two allocated car spaces, as well as streetscapes with residents' parkland areas.
- Prices range from \$430,000 to \$625,000
- Contact: Ron Benson on 0414 492 508
- www.woodgrovewakerleymanly.com.au



COAST APARTMENTS

THE ENTRANCE, NSW

- A wide range of residential apartments include three, two, or two bedroom + study configurations, each with their own fully equipped ensuites, open plan living, dining areas and onsite secure parking. 6 units are available for inspection.
- The development also contains 11 available commercial/retail units, ranging from 19sqm to 60sqm in size.
- Prices for residential units range from \$330,000 to \$585,000; prices for the commercial/retail units range from \$100,000 to \$240,000.
- Contact: Peter Kalaf on 0411 017 242 or 1300 30 30 70
- www.coasttheentrance.com.au



GPO – MARINE PARADE

SOUTHPORT, QLD

- A completed vertical retirement village of studio apartments to four bedroom apartments with views of the Gold Coast. Currently there are 86 units remaining.
- Onsite low level care is available; 24 hour emergency nurses on staff, prescription reminders, dressing assistance, shower care and meals available.
- The facility maintains a qualified nursing assistant after hours with a Registered Nurse on call throughout the night.
- Extended and high level care can be arranged as needed.
- Prices range from \$230,000 (1 bedroom) to \$1,100,000 (4 bedrooms)
- Contact: Kath Lawrie on 07 5591 2111

