

PACIFIC FIRST MORTGAGE FUND UNITHOLDER REPRESENTATIVES

INVESTOR COMMITTEE – LETTER TO UNITHOLDERS

13 September 2011

Dear Fellow PFMF Members,

Following the August 2011 PFMF Investor Committee meeting, Unitholder representatives on the Committee make the following brief comments on the current situation:

Projected capital repayments

It is clear that the property situation in SE Queensland, which comprises the bulk of our assets (other than Martha Cove), is in dire straits. This has meant that the programmed capital repayments have not occurred on time. We can confirm that Balmain Trilogy is returning capital to Unitholders as soon as possible when sale proceeds are received, with hardship returns correctly having priority. We can also confirm that BT has not taken a full month's management fee since April 2011 as a result of the lag in sale proceeds and will continue to delay full payment of its outstanding management fees until payments to Unitholders start again.

Unitholder representatives on the Committee are probably less optimistic about the capital returns program although we do expect that the \$295 million capital return promised will be achieved. However under the current economic circumstances we have reservations that this will be achieved by the end of 2012.

Hardship payments

Unitholder representatives on the Committee are pleased these are being honoured, albeit on a prorata basis as a result of cash flow deficiencies.

Martha Cove

The international Expression of Interest (EOI) campaign will be launched in the coming weeks. The EOI is largely a result of pressure from the Unitholder representatives on the Committee to Balmain Trilogy. We are hopeful that it may generate quality interest. Martha Cove is a difficult and troublesome asset in the short to medium term, much as a result of multiple, different and competing holdings of liquidated assets due to the collapse of a City Pacific Limited (CPL) and its related entities, CP1 Limited (CP1). Unfortunately, much of our Fund was improperly used to fund CP1 in its dying days. This situation was not very different from the improper use of our Fund in other related party arrangements of CPL.

The unidentified ProtectPFMF

Please do not be deceived by this development. It is more than likely that this is an initiative of Phil Sullivan himself. We are concerned that this is an extraordinarily desperate attempt to regain control of the PFMF. If he was successful, there is a risk that proposed action against him over his conduct in relation to the Fund may not proceed. The Unitholder representatives on the Committee are committed to Mr Sullivan being held to account.

To suggest that the Fund's problems were due to the GFC and to bracket it with the problems of other mortgage funds which have suffered as a result of the GFC and government guarantees of the banks is a distortion of the facts. The problems of the Fund were numerous and included improper transactions which benefited related parties of City Pacific at the expense of Unitholders. We suggest you treat this initiative with the contempt it deserves and consign all such correspondence to the bin.

The Unitholder representatives on the Committee assure you that we are rigorous in our dealings with Balmain Trilogy, at all times requiring justification for actions, proof of statements, and at all times ensuring that Unitholder interests come first in accordance with the Fund's Constitution.

We, like you, have been burnt by the conduct of the previous manager. We have a lot of money invested ("skin in the game") so be assured that our own interests are aligned with yours and we are committed to ensure the best possible outcome. We are confident that Balmain Trilogy, a high calibre and professional team, is not only aware of its commercial interests but is passionate about looking after Unitholder interests in a difficult environment.

Yours faithfully,



Graham Kells



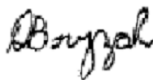
Vadim Shev



Julian Brown



Peter Cranna



Deborah Bryzak



Peter Fardoulis

John Rudajs- Unavailable as Overseas