

MESSAGE TO UNITHOLDERS

FROM

CITY PACIFIC FIRST MORTGAGE FUND UNIT HOLDERS ACTION GROUP STEERING GROUP, QUEENSLAND

It is important that as members of the City Pacific First Mortgage Fund ('Fund') you are briefed on events that have occurred over the last six months. These events have culminated in the Unit Holders Meeting that has been called for 25 June 2009 with the intent of removing City Pacific as the Responsible Entity (RE) of our Fund.

In October 2008 a small group of unit holders interested in doing something to save their funds in the crippled City Pacific First Mortgage Fund got together to discuss what might be done to help not only ourselves, but also other unit holders. We were very concerned over a number of issues with our Fund. Redemptions had been frozen for months and no distributions were being made, or looked like being made in the foreseeable future. The excessive and crippling fee structure of the existing responsible entity and manager, City Pacific Limited ('CP'), was bleeding our Fund and there was also the intent at some time to list the Fund on the Stock Exchange, which in our opinion would have led to a severe loss of capital for members.

We believed that the best outcome could only be achieved by replacing CP as responsible entity and manager of the Fund ('RE') with a truly professional and ethical organisation. Our aim was to find some experienced fund managers that had no associations with CP. These companies would then be given some basic criteria that we regarded as the minimum requirements.

These requirements for a new manager included:

- lower management fees;
- no related party involvement in projects;
- no listing of our Fund on any stock market;
- more transparency to members in all their dealings;
- borrowings to be utilised for liquidity purposes only and not for new projects;
- changes to our Constitution to reflect these matters; and
- any prospective R.E. to fund the cost of calling a unit holders meeting.

The prospective managers would then be asked to "sell" themselves to unit holders who would select the one to be voted on as the new RE of our Fund.

We canvassed many potential RE's, and had a number of meetings with these companies, only to find that some were not interested in CP's problems, others had their own problems to sort out first, and some would not be available to help for a long time. We finally set a deadline for written responses and only one of the RE's approached was prepared to put a proposal in writing. This was Trilogy Funds Management Limited. Details of Trilogy's background and expertise are in their proposal.

Unknown to us at the time, another group of disheartened unit holders in Sydney was doing exactly the same thing and had found a company by the name of Balmain NB Corporation Limited. Balmain is a specialist manager of mortgage fund assets and more details about them are included in the proposal. This group of unit holders contacted our group with a view of working together for an even better outcome. The outcome was the Balmain/Trilogy proposal.

We see this proposal as a positive change, as the proposal meets most of the criteria mentioned above. We consider that with an independent RE, all defaulting loans will be treated on an equal basis (as there would no longer be any conflict of interest) and we believe the promise to never list the fund will protect unit holders' investment.

We believe replacing CP will ultimately reward unit holders. However, as in any investment decision, every unit holder should do their research on Balmain, Trilogy and City Pacific, and perhaps seek professional advice before making an informed decision. While we are not licensed financial advisors, lawyers or investment experts, members of our group have had professional experience either in the financial field, or as company managers. We are a group of unit holders who wanted to make a change for what we think will be in our best interests. We consider that replacing CP with Balmain/Trilogy will achieve that aim.

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