balmainTRILOGY

10 April 2013

Dear Unitholder

Balmain Trilogy, as the Investment Manager of the Pacific First Mortgage Fund (Fund), is pleased to provide to you this update in relation to the Fund. Included with this update is a copy of the Half-Year Financial Report (Accounts) for the six months ended 31 December 2012 (Reporting Period).

During the Reporting Period we remitted $9 million to the Commonwealth Bank of Australia (CBA), reducing the debt owing under the Fund's finance facility (Facility) from $19 million as at 30 June 2012 to $10 million as at 31 December 2012. Subsequent to the Reporting Period, we have secured the extension of the Facility, which expired on 28 February 2013. The Facility has been extended by six months and will mature on 28 August 2013 (unless repaid prior or extended further). The extension will enable the gradual repayment of the residual debt over the next six months, in line with the Fund's projected mortgage asset sales. We are confident that, subject to various mortgage asset sales occurring as and when projected, the Fund will extinguish the debt owing to CBA on or before the 28 August 2013 maturity date.

As detailed to Unitholders in the 15 November 2012 Fund Update (published on Balmain Trilogy's website), we have focused on utilising all available cash resources to repay the Facility, which was originally provided to City Pacific Limited (Receivers and Managers Appointed) (In Liquidation) (City Pacific), the former responsible entity of the Fund, in March 2005. In order to secure repayment of the Facility, City Pacific provided a first-ranking security to CBA over all existing and future assets of the Fund. Upon replacing City Pacific as the responsible entity of the Fund in July 2009, Trilogy Funds Management Limited (Trilogy) inherited the Fund's contractual obligations under the Facility. These obligations, among others, require the continuous allocation of cash resources towards debt reduction, resulting in the delay of capital return to Unitholders. Subject to the timely repayment of the Facility and the Fund's liquidity from time to time, we anticipate the return of capital to recommence during the fourth quarter of the 2013 calendar year.

December 2012 Half-Year Financial Report

The Accounts for the Reporting Period have been lodged with the Australian Securities and Investments Commission (ASIC). The Fund's auditors, BDO, have reviewed the Accounts and confirmed they have been prepared in compliance with the Corporations Act 2001 (Cth) and relevant professional accounting standards.

The net assets of the Fund as at 31 December 2012 amounted to $103.63 million, a reduction of $13.11 million from 30 June 2012. The net asset value attributable to each unit at the end of the Reporting Period was $0.12, a decrease of $0.015 per unit from 30 June 2012. This decline is largely attributable to the $6.59 million ($0.0075 per unit) return of capital made to Unitholders and further impairments in the value of the Fund's mortgage assets due to the continuing accrual of holding, statutory and other asset-related costs (e.g., receivers' fees, land tax, council rates, etc.).

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The remaining assets in the portfolio consist of larger, undeveloped land lots concentrated primarily on the Gold Coast and in South East Melbourne (including Martha Cove). While the gross asset values of these residual mortgage properties have remained relatively stable during the Reporting Period, the ability to realise these assets in the short to medium term continues to be hampered by the prevailing market conditions. This is largely due to the limited availability of development and construction finance to potential buyers and the oversupply of similar properties in these local markets. Notwithstanding this, we have been able to regenerate interest on several undeveloped Martha Cove precincts following the implementation of the individual precinct realisation strategy in late 2012 (see below).

CBA Finance Facility

As outlined above, the six-month extension of the Facility has now been finalised, which enables the orderly realisation of the Fund's residual assets and the gradual reduction of the Facility to continue. Further extension of the Facility was necessary for the continuation of the Fund as a going concern and the orderly realisation of assets in the ordinary course of business (as detailed in the Accounts).

The extended agreement contains the following pertinent terms:

- expiry date of 28 August 2013;
- 75% of net settlement proceeds banked by the Fund to be remitted to CBA within five business days and applied to the principal debt;
- no further capital repayments, distributions and redemptions without CBA's prior written consent; and
- mandatory reduction of the Facility to $6 million by 29 March 2013.

Subsequent to the Reporting Period, in accordance with the above terms, we have repaid an additional $4 million to CBA, reducing the Facility to $6 million, thereby adhering to the abovementioned 29 March 2013 mandatory amortisation covenant. Since Trilogy's appointment as Responsible Entity and Balmain Trilogy's appointment as Investment Manager, we have reduced the debt owing under the Facility by over $85 million ($0.10 per unit). We remain committed to strict compliance with the contractual obligations of the Fund in relation to the Facility and aim to expedite the repayment of the debt to enable recommencement of capital repayments at the earliest possible opportunity.

Asset realisation

The structured realisation of the Fund's remaining assets continues amid difficult market conditions, particularly in South East Queensland, where the majority of the properties referenced in the below table are located. The following assets were realised during the Reporting Period:

ASSET NO.	LOCATION	PRODUCT	SECURITIES SOLD	GROSS RECOVERY	STATUS
3	Clagiraba QLD	Rural Residential Development	16	$5,135,000	Sold
18	Wakerley QLD	Completed Residential Dwellings	3	$1,240,000	Sold
20	Braeside VIC	Vacant Industrial Lots	1	$930,000	Partly Sold
24	Hope Island QLD	Completed Residential Units	5	$1,930,000	Sold
26	Broadbeach QLD	Residential Units	11	$2,782,000	Sold
28	Hervey Bay QLD	Vacant Residential Land	1	$650,000	Sold
30	Southport QLD	Independent Living Units	1	$630,000	Partly Sold
37	Martha Cove VIC	Vacant Land and Marina Berth	2	$1,210,000	Partly Sold
39	Martha Cove VIC	Completed Residential Dwellings	1	$480,000	Partly Sold
Fund's Investment Property	Broadbeach QLD	Residential Units	1	$225,000	Sold
			42	**$15,212,000**	

As we have consistently advised Unitholders, the Fund has a strict 'no fire sales' policy in relation to the realisation of its mortgage properties. All assets intended to be sold are placed on the open market, thoroughly advertised via well-funded public marketing campaigns (in, among others, internet and print media) and sold at fair market values, in line with timely valuations and market expectations.

Subsequent to the end of the Reporting Period, the remainder of Asset 18, comprising a non-subdivided development lot, was sold at a gross price of $4,115,000. The majority of the funds from the sale were remitted to CBA, enabling a material reduction of the debt remaining under the Facility.

Following the sale of the above securities, the remaining assets of the Fund are primarily located in Martha Cove (Victoria) and comprise specialised assets in the form of an operating marina, marina berths, marine facilities and ancillary unimproved vacant land. Demand for specialised assets of this nature remains limited, particularly given the ongoing economic uncertainty.

Hardship

The Fund's hardship program continues to be suspended until further notice due to the Fund's liquidity constraints and in line with the terms of the extended CBA Facility. Consequently, no applications can be considered at this time.

Martha Cove marketing campaign

Following the completion of our negotiations for the sale of the Martha Cove portfolio 'in one line' in late 2012, we have adopted an individual precinct sale strategy aimed at maximising the recovery from each of the nine remaining precincts and the portfolio as a whole. Consequently, we conducted an 'expressions of interest' (EOI) campaign in February 2013, during the course of which the portfolio was offered on an open basis, giving the option of acquiring any, some or all of its constituent precincts. This strategy was aimed at generating interest from as broad a spectrum of potential purchasers as possible and fostering competitive tension among them to increase the prospects of an acceptable recovery to Unitholders.

Several parties have indicated their interest in purchasing the various precincts pursuant to deferred payment arrangements featuring settlement periods of six to twelve months. Negotiations continue with short-listed parties with a view to procuring a sale on terms that we believe reflect the fair market value of these assets. We have not divulged the terms and conditions of these offers to date due to the commercially sensitive nature of the sale negotiations. We will update Unitholders should these prospects come to fruition.

Capital repayments

Our ability to return capital to Unitholders prior to the repayment of the CBA Facility is hindered by the terms of the extended Facility which, as outlined above, prohibits the return of capital without CBA's prior written consent. In the interests of prudence and to ensure we retain sufficient cash reserves to meet the Fund's financial commitments as and when they fall due, we must honour the terms of the extension and expedite repayment of the debt. As indicated above, subject to the materialisation of our asset recovery projections and the Fund's liquidity, we expect to recommence the return of capital in the fourth quarter of the 2013 calendar year.

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

Yours sincerely,

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