

Pacific First Mortgage Fund

ARSN 088 139 477

Interim Financial Report

For the six months ended 31 December 2011

Pacific First Mortgage Fund

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Pacific First Mortgage Fund

Directors' report

The Director's of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of the Pacific First Mortgage Fund (Scheme), present their report together with the financial statements of the Scheme and its subsidiary (together referred to as the Group) for the six months ended 31 December 2011 and the auditor's report thereon.

Responsible Entity

The Responsible Entity is incorporated and domiciled in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is:

Brisbane Club Tower
Level 10
241 Adelaide Street, Brisbane, Queensland

Directors

The names of the directors in office at any time during, or since the end of the reporting period are:

Name and qualifications Age Experience and special responsibilities

Robert M Willcocks Independent Non- Executive Chairman BA, LL.B, LL.M	63	Member of the Audit, Compliance and Risk Management Committee Former partner with Mallesons Stephen Jaques, now King & Wood Mallesons Mr Willcocks is a director (including chairman) of a number of listed public companies Chairman - Responsible Entity since 9 October 2009
Rodger I Bacon Executive Deputy Chairman BCom(Merit), AICD, SFFin	66	Former executive director of Challenger International Limited Mr Bacon is a director of several public and private companies including, Financial Services Institute of Australasia, and Trilogy Capital Services Pty Ltd. Director – Responsible Entity since 9 July 2004
John C Barry Executive Director BA, ACA	60	Member of the Audit, Compliance and Risk Management Committee Former executive director of Challenger International Limited Mr Barry is a director of several public and private companies including Trilogy Capital Services Pty Ltd, and Chairman of Westpac RE Limited Director – Responsible Entity since 9 July 2004
Philip A Ryan Executive Director and Company Secretary LL.B, Grad Dip Leg Prac, FTIA, FFIN	51	Mr Ryan is a solicitor and member of the Queensland Law Society Inc. Member of the Compliance Committee Former partner of a Brisbane law firm Mr Ryan is a director of several private companies including, Trilogy Capital Services Pty Ltd Director – Responsible Entity since 13 October 1997

Pacific First Mortgage Fund

Directors' report

Directors (continued)

Trevor J D Gibson Executive Director Dip FP, FFPAA		Former state manager for several national fund management groups, including AXA and Australian Unity Mr Gibson is a director of Trilogy Capital Services Pty Ltd (resigned 1 August 2011) Director – Responsible Entity since 14 August 2006 (resigned 1 August 2011)
Rohan C Butcher Non-Executive Director Grad Dip PM, BASc(QS), Registered Builder, Licensed Real Estate Agent	42	Member of the Lending Committee Consultant to several major public and private companies providing development management services Director – Responsible Entity since 29 July 2008
Nigel A Chamier Independent Non- Executive Director OAM, RN01kl, FAPI, FAICD	60	Chairman of the Audit, Compliance and Risk Management Committee Chairman of NAC Investments (Qld) Pty Ltd and a Director of several private companies Mr Chamier is the Honorary Consul for Sweden in Brisbane Former Joint Managing Director (Qld) Jones Lang LaSalle Director – Responsible Entity since 14 October 2009

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of operations

The net loss attributable to unitholders for the six months ended 31 December 2011, after impairment losses of \$78,058,320 (31 Dec 2010: \$6,887,512) totalled \$68,745,917 (31 Dec 2010: Profit \$4,622,433). The impairment losses of \$78,058,320 (31 Dec 2010: \$6,887,512) comprise impairments of interest receivable of \$13,464,457 (31 Dec 2010: \$12,878,649) impairments of mortgage loans of \$64,469,873 (31 Dec 2010: \$5,991,137) and investment property impairments of \$123,990 (31 Dec 2010: \$nil).

The general economy over the last 6 months has continued to be poor and in particular the market for the development type assets of the Scheme is extremely weak and thin. This has led to a significant decline in the value of the residual assets of the Scheme.

The impairment losses relate to an analysis of impaired mortgage loans during the period and at balance date to reflect the fair value of mortgage loans and interest receivable of those loans. These impairment losses represent estimates of losses that may be incurred based on a number of assumptions including amounts that may be received upon repayment or sale of the security properties and the period until funds are returned. In the current economic climate there is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

Return of capital to unitholders

The Responsible Entity made a further return of capital to unitholders in September 2011 totalling \$8,844,106 (\$0.01 per unit) (31 Dec 2011: \$35,481,616).

Hardship policy

During the period, the Responsible Entity assessed hardship applications totalling \$1,553,936, of which \$500,000 was paid on a prorata basis to qualifying applicants in the second instalment of hardship payments to unitholders. Units were redeemed at the prevailing net tangible asset value.

Pacific First Mortgage Fund
Directors' report

Review of operations (continued)

Finance facility with Commonwealth Bank of Australia ("CBA")

In order to maintain the covenants of the Facility Agreement, the Scheme was required to repay \$2,900,000 during the period. The balance of the facility at 31 December 2011 was \$27,100,000 (30 Jun 2011: \$30,000,000).

Events subsequent to the end of the reporting period

Economic outlook

The market for the Scheme's security properties continues to be extremely weak and this has the potential to adversely affect the Group's ability to realise assets at values recorded in the financial report.

Finance facility with Commonwealth Bank of Australia ("CBA")

Pursuant to the terms of the facility agreement, the Scheme was required to repay a further amount of \$500,000 against the facility as at 31 December 2011. This payment was made on 25 January 2012.

Other than the items noted above, there has not arisen in the interval between the end of the reporting period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial periods.

Auditor's independence declaration

The Auditor's independence declaration is set out on page 4 and forms part of the Directors' report for the six months ended 31 December 2011.

This report is made in accordance with a resolution of the Directors of the Responsible Entity.



Philip A Ryan
Executive Director
Dated: 15 March 2012
Brisbane



Roger I Bacon
Executive Deputy Chairman
Dated: 15 March 2012
Brisbane

DECLARATION OF INDEPENDENCE BY PAUL GALLAGHER TO THE DIRECTORS OF PACIFIC FIRST MORTGAGE FUND

As the auditor for the review of Pacific First Mortgage Fund for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.



P A Gallagher

Director

BDO Audit (QLD) Pty Ltd

Brisbane, 15 March 2012

Pacific First Mortgage Fund
Interim statement of comprehensive income
For the six months ended 31 December 2011

	Note	Consolidated	
		31 Dec 2011	31 Dec 2010
		\$	\$
Revenue and other income			
Interest revenues - mortgage loans		12,765,536	16,554,798
Interest revenue - cash and cash equivalents		122,624	587,197
Fees income - mortgage loans		30,257	3,000
Rental income		3,189	6,149
		<u>12,921,606</u>	<u>17,151,144</u>
Expenses			
Auditor's remuneration		(78,173)	(263,203)
<i>Impairment expense:</i>			
• Trade and other receivables	4	(13,464,457)	(12,878,649)
• Investment property	5	(123,990)	-
• Investment in financial assets - mortgage loans	6	(64,469,873)	5,991,137
Other expenses		(218,906)	(1,153,108)
Property expenses and outgoings		484	(4,391)
Responsible Entity management fees	8(a)	(2,082,026)	(2,898,618)
		<u>(80,436,941)</u>	<u>(11,206,832)</u>
Profit/(loss) from operating activities before finance costs		<u>(67,515,335)</u>	5,944,312
<i>Finance costs:</i>			
• Amortisation of loan transaction costs		(125,343)	59,041
• Interest expense		(1,105,239)	(1,380,920)
		<u>(1,230,582)</u>	<u>(1,321,879)</u>
Profit/(loss) attributable to unitholders		<u>(68,745,917)</u>	4,622,433
Other comprehensive income:			
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		<u>(68,745,917)</u>	<u>4,622,433</u>

The Interim statement of comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Pacific First Mortgage Fund
Interim statement of financial position
As at 31 December 2011

	Note	Consolidated	
		31 Dec 2011	30 Jun 2011
		\$	\$
Assets			
Cash and cash equivalents		6,961,210	1,312,625
Trade and other receivables	4	1,340,668	2,165,695
Investment property	5	346,562	511,159
Mortgage loans	6	215,026,489	301,256,189
Total assets		<u>223,674,929</u>	<u>305,245,668</u>
Liabilities			
Trade and other payables		1,459,351	2,040,067
Borrowings	7	27,100,000	30,000,000
Total liabilities (excluding liabilities attributable to unitholders)		<u>28,559,351</u>	<u>32,040,067</u>
Net assets attributable to unitholders		<u>195,115,578</u>	<u>273,205,601</u>
Total liabilities		<u>223,674,929</u>	<u>305,245,668</u>

The Interim statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Pacific First Mortgage Fund

Interim statement of changes in net assets attributable to unitholders
For the six months ended 31 December 2011

	No. of units	\$
At 1 July 2010	887,040,412	382,467,860
Total comprehensive income		
Profit for the period	-	4,622,433
Other comprehensive income for the period	-	-
Total comprehensive income for the period	-	4,622,433
<i>Transactions with unitholders:</i>		
Ordinary units redeemed	-	-
Return of capital	-	(35,481,616)
At 31 December 2011	887,040,412	351,608,677
At 31 July 2011	884,410,563	273,205,601
Change in net assets attributable to unitholders		
Total comprehensive income		
Loss for the period	-	(68,745,917)
Other comprehensive income for the period	-	-
Total comprehensive income for the period	-	(68,745,917)
<i>Transactions with unitholders:</i>		
Ordinary units redeemed	(1,851,852)	(500,000)
Return of capital	-	(8,844,106)
At 31 December 2011	882,558,711	195,115,578

The Interim statement of changes in net assets attributable to unitholders is to be read in conjunction with the accompanying notes to the financial statements.

Pacific First Mortgage Fund
Interim statement of cash flows
For the six months ended 31 December 2011

	Consolidated	
	31 Dec 2011	31 Dec 2010
	\$	\$
Cash flows from operating activities		
Interest received - mortgage loans	231,154	930,740
Interest received - financial institutions	102,611	638,035
New Responsible entity fees and other costs paid	(2,836,154)	(3,588,674)
Borrowing costs paid	(1,402,895)	(1,584,415)
Net cash provided by/(used in) operating activities	(3,905,284)	(3,604,314)
Cash flows from investing activities		
Mortgage loan funds advanced	(7,387,794)	(9,770,410)
Mortgage loan funds repaid	29,147,621	37,714,317
Acquisition of investment property	(3,102)	(74,654)
Refund of deposit - investment property	41,250	-
Net cash provided by/(used in) investing activities	21,797,975	27,869,253
Cash flows from financing activities		
Repayment of borrowings	(2,900,000)	-
Payments for return of capital	(8,844,106)	(35,481,616)
Payments for redemption of units	(500,000)	-
Net cash provided by/(used in) financing activities	(12,244,106)	(35,481,616)
Net increase/(decrease) in cash held	5,648,585	(11,216,677)
Cash and cash equivalents as at 1 July	1,312,625	19,095,790
Cash and cash equivalents at 31 December	6,961,210	7,879,113

The Interim statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 1 Reporting entity

The Pacific First Mortgage Fund (Scheme) is a registered managed investment scheme under the Corporations Act 2001 (Act). The Scheme was constituted on 23 June 1998 and will terminate on 23 June 2078 unless terminated in accordance with the Constitution. The consolidated financial report of the Scheme is for the six months ended 31 December 2011.

Note 2 Basis of preparation

(a) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Act.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Scheme as at and for the year ended 30 June 2011.

The interim financial report has been prepared on an accruals basis and is based on historical cost modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(b) Key assumptions and sources of estimation

The preparation of Interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised are disclosed in:

- Note 3(a): Material uncertainty regarding going concern;
- Note 4: Impairment losses (interest receivable);
- Note 5: Investment property; and
- Note 6: Impairment losses (mortgage loans).

Note 3 Significant accounting policies

The accounting policies and methods of computation applied by the Scheme in this Interim financial report are the same as those applied by the Scheme for the year ended 30 June 2011.

(a) Material uncertainty regarding going concern

The consolidated financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

During the six months ended 31 December 2011:

- All parties who had borrowed from the Scheme continue to be unable to repay or refinance existing mortgage loans due for repayment during the period, resulting in expected cash inflows to the Group not being received as anticipated;
- The Former Responsible Entity cancelled income distributions to unitholders during July 2008 and as a result no income distributions were paid during the period;
- As disclosed in Notes 4, 5 and 6, the Scheme recognised impairment losses of \$78,058,320 (31 Dec 2011: \$6,887,512);

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 3 Significant accounting policies (continued)

(a) Material uncertainty regarding going concern (continued)

- In October 2008 the Former Responsible Entity resolved that the Scheme was a “non-liquid” registered managed investment scheme in accordance with the Scheme's Constitution and the Act. As a result no redemptions were paid by the Scheme to unitholders from this date until the end of the current reporting period (excluding redemptions under the Scheme's Hardship Policy, refer note below);
- Pursuant to the terms of the Scheme's finance facility, \$2,900,000 (31 Dec 2011: \$nil) was repaid during the period. The repayment was required to ensure the Scheme maintained the facility's covenants.
- Return of capital payments totalling \$8,844,106 were repaid to unitholders; and
- Hardship redemptions totalling \$500,000 were paid to qualifying applicants.

Subsequent to the end of the period:

- Pursuant to the terms of the facility agreement, the Scheme was required to repay \$500,000 against the facility.

The Directors of the Responsible Entity have prepared the consolidated financial statements on the going concern basis, as it is their intention to:

- Realise sufficient cash funding from the repayment or refinancing of existing mortgage loans to repay the loan of \$27.1 million by 31 August 2012 (Refer Note 7), or seek an extension to the facility;
- Recommence the return of capital payments to unitholders subject to the Group having sufficient liquidity;
- Continue to fund the completion of security properties in order to facilitate the sale of completed properties and repayment of loans; and
- Continue as market conditions permit, to dispose of saleable Scheme assets.

The Responsible Entity has prepared cash flow projections that support the Group's ability to meet financial liability repayments, and fund draw down requests and the completion of security properties.

To continue as a going concern, it will be necessary for the Group to:

- Continue the existing finance arrangements with its financier; and
- Realise sufficient cash funds from the repayment or refinancing of mortgage loans to:
 - Repay the Finance facility by 31 August 2012, or seek an extension to the facility;
 - Fund costs associated with the completion of security properties to facilitate sale, recommence return of capital payments to unitholders, and to make provision for the payment of Hardship monies to unitholders; and
 - Fund all other costs associated with the operation of the Group.

In the absence of these matters being successful, there exists a material uncertainty that may cast significant doubt in the Group's ability to continue as a going concern with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial statements. No adjustment for such circumstances have been made in the financial statements.

Note 4 Trade and other receivables

	Consolidated	
	31 Dec 2011	30 Jun 2011
	\$	\$
Interest receivable - mortgages	117,084,469	127,180,748
Impairment losses	(115,831,138)	(125,024,688)
	1,253,331	2,156,060
Interest receivable - financial institutions	24,935	4,922
Other receivables	62,402	4,713
	1,340,668	2,165,695

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 4 Trade and other receivables (continued)

(a) Impaired receivables

At 31 December 2011, as part of the annual balance date review procedures the Scheme recorded impairment losses in respect of interest receivable of \$13,464,457 (30 Jun 2011: \$42,647,117) for the period. During the period the repayment of 7 (30 Jun 2011: 8) mortgage loans resulted in realised impairment losses of \$22,658,007 (30 Jun 2011: \$18,238,589) in respect of interest receivable.

In assessing whether interest receivable may be impaired, the Responsible Entity's considerations included but were not limited to:

- Valuations of security properties completed by registered valuers;
- Appraisals from real estate agents;
- Actual sale prices realised on completed projects;
- Recent offers to purchase security properties arising out of marketing campaigns;
- Current market conditions as at 31 December 2011;
- Status of individual loans; and
- Estimated time to realise mortgage loans and interest receivable.

These impairment losses represent estimates of losses that may be incurred based on a number of assumptions including amounts that may be received upon repayment or sale of the security property and the period until funds are returned. In the current economic conditions there is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses may differ significantly from these estimates.

The Responsible Entity considers that, based on evidence available as at 31 December 2011, the net impaired interest on remaining mortgage loans should be recovered in full and accordingly no further impairment losses have been recorded.

Property markets

The ongoing volatility in Australia's property markets may negatively impact asset values in the future, however, these financial statements set out the financial position as at the reporting date based on available evidence and accounting estimates.

It is common knowledge that the property market throughout Australia and particularly in south east Queensland has been very difficult in recent times and particularly over the past 3 years.

In the case of undeveloped land or finished apartments, there has been extraordinary weakness and very low transaction volumes, some transactions have exhibited the characteristics of very distressed sale values.

In carrying out the duties of Directors of the Responsible Entity under the Act, it is necessary to form a view of the value of the assets of the Scheme, and to increase the impairment provisions where the Directors consider that would be a prudent course when reporting to unitholders.

In this process the Directors seek and obtain the views of the Investment Manager of the Scheme (Balmain Trilogy Investment Management Pty Ltd) as it is they who have a good understanding of such assets and the markets in which they may be transacted.

These views take into account the plans for orderly realisation of assets and the stated policy of 'no fire sales of assets'.

On a regular basis or when circumstances are deemed to require it, the Directors also seek independent professional valuation reports to assist with forming their views on the fair values of the relevant assets. However, it must be recognised that establishing values in market conditions such as have prevailed in the last year can be a very difficult exercise. This is especially so if the assets are unusual or unique, such as those assets secured by property at Martha Cove.

There is no doubt that in reality, transactions will eventually occur at values either above or below where opinions rested for the purpose of this report to unitholders.

In the case of assets secured by property at Martha Cove, unitholders should also refer to Note 9(a).

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 5 Investment property

	Consolidated	
	31 Dec 2011	30 Jun 2011
	\$	\$
Acquisitions - management rights	27,807	44,307
Acquisitions - residential apartment	442,745	466,852
	<u>470,552</u>	<u>511,159</u>
Impairment losses	(123,990)	-
	<u><u>346,562</u></u>	<u><u>511,159</u></u>

(a) Impaired investment property

At 31 December 2011, as part of the balance date review procedures the Scheme recorded impairment losses in respect of the investment property of \$123,990 (30 Jun 2011: \$nil) for the period.

In assessing whether the investment property may be impaired, the Responsible Entity's considerations included external valuations of security properties completed by registered valuers.

(b) Movement in investment property

	Consolidated	
	31 Dec 2011	31 Dec 2010
	\$	\$
Balance as at 1 July	511,159	419,823
Acquisitions - management rights	-	36,654
Less: Impairment losses - management rights	(27,807)	-
Refund of deposit	(16,500)	-
Acquisitions - residential apartment	642	39,757
Less: Impairment losses - residential apartment	(96,182)	-
Refund of deposit	(24,750)	-
Balance as at 31 December	<u><u>346,562</u></u>	<u><u>496,234</u></u>

Note 6 Investment in financial assets

(a) Mortgage loans

Held directly:

Mortgage loans (i)	608,959,924	668,830,684
Impairment losses	(393,933,436)	(367,574,495)
	<u><u>215,026,489</u></u>	<u><u>301,256,189</u></u>

(i) All loans are secured by registered first and second mortgages and secured over real property in Australia.

As at 31 December 2011, as part of the balance date review procedures, the Scheme recorded impairment losses in respect of mortgage loans of \$64,469,873 (30 Jun 2011: \$44,917,894) for the period. During the period, 7 mortgage loans (30 Jun 2011: 7) were repaid in full or in part from the sale of underlying security properties or refinance, resulting in realised impairment losses of \$38,110,932 (30 Jun 2011: \$44,130,559) in respect of mortgage loans.

(b) Impaired mortgage loans

In assessing whether mortgage loans may be impaired, the Responsible Entity considerations included but were not limited to:

- Valuations of security properties completed by registered valuers;
- Appraisals from real estate agents;
- Actual sale prices realised on completed projects;
- Recent offers to purchase security properties arising out of marketing campaigns;
- Current market conditions as at 31 December 2011;
- Status of individual loans; and
- Estimated time to realise mortgage loans and interest receivable.

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 6 Investment in financial assets (continued)

(b) Impaired mortgage loans (continued)

The provision for impairment losses represent estimates of losses that may be incurred based on a number of assumptions including amounts that may be received upon repayment or sale of the security property and the period until funds are returned. In the current economic conditions there is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

The Responsible Entity considers that, based on evidence available as at 31 December 2011, and subject to market conditions, all unimpaired principal on remaining mortgage loans should be recovered in full and accordingly no further impairment losses have been recorded.

Property markets

The ongoing volatility in Australia's property markets may negatively impact asset values in the future, however, these financial statements set out the financial position as at the reporting date based on available evidence and accounting estimates.

It is common knowledge that the property market throughout Australia and particularly in south east Queensland has been very difficult in recent times and particularly over the past 3 years.

In the case of undeveloped land or finished apartments, there has been extraordinary weakness and very low transaction volumes, some transactions have exhibited the characteristics of very distressed sale values.

In carrying out the duties of Directors of the Responsible Entity under the Act, it is necessary to form a view of the value of the assets of the Scheme, and to increase the impairment provisions where the Directors consider that would be a prudent course when reporting to unitholders.

In this process the Directors seek and obtain the views of the Investment Manager of the Scheme (Balmain Trilogy Investment Management Pty Ltd) as it is they who have a good understanding of such assets and the markets in which they may be transacted.

These views take into account the plans for orderly realisation of assets and the stated policy of 'no fire sales of assets'.

On a regular basis or when circumstances are deemed to require it, the Directors also seek independent professional valuation reports to assist with forming their views on the fair values of the relevant assets. However, it must be recognised that establishing values in market conditions such as have prevailed in the last year can be a very difficult exercise. This is especially so if the assets are unusual or unique, such as those assets secured by property at Martha Cove.

(c) Co-lending arrangements

The Group had an agreement with an institutional investor referred to as a co-lending agreement. The agreement provided that the institutional investor lend to borrowers on existing first mortgages held by the Group. The institutional investor became a joint first mortgage lender with the Group however a priority agreement was entered into which has the effect of pushing the Group into a second-ranking mortgage position. Consequently the institutional investor had first priority and its security ranked ahead of the Group.

During the period, the security associated with borrowings were sold and the proceeds were used to extinguish the debt to the co-lender. The remaining proceeds were applied to the balance of the loans held by the Scheme. As at 31 December 2011, all loans associated with the institutional investor were repaid (30 Jun 2011: \$42.1 million).

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 7 Borrowings

	Consolidated	
	31 Dec 2011	30 Jun 2011
Finance facility (Commercial bills)	\$	\$
Multi option facility	27,100,000	30,000,000
	27,100,000	30,000,000

The details of borrowings as at 31 December 2011 are set out below:

Facility	Secured	Maturity date	Facility 31 Dec 2011	Utilised 31 Dec 2011	Facility 30 Jun 2011	Utilised 30 Jun 2011
			\$	\$	\$	\$
Multi option facility	Yes	31/08/2012	40,000,000	27,100,000	30,000,000	30,000,000
Total borrowings				27,100,000		30,000,000

The facility is secured by a fixed and floating charge over the assets of the Scheme, providing the financier with first priority over Scheme assets. The interest charged on the facility is variable and is 7.51% p.a. (30 Jun 2011: 7.37% p.a.) at 31 December 2011. The rate includes a margin of 2.50% p.a. (30 Jun 2011: 2.50% p.a.). Principal reductions to the loan have been made as required during the period to maintain the facilities loan covenants.

Note 8 Related party transactions

(a) Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with the Responsible Entity:

	Consolidated	
	31 Dec 2011	31 Dec 2010
<i>i. Transactions recorded in the Interim statement of comprehensive income</i>	\$	\$
Responsible Entity management fees paid (i)	(713,684)	(2,341,120)
Responsible Entity management fees payable (i)	(1,368,342)	(557,498)
	(2,082,026)	(2,898,618)
Expenses reimbursed (ii)	(35)	(4,505)
	(2,082,061)	(2,903,123)
<i>ii. Balances recorded in the Interim statement of financial position</i>	\$	\$
Responsible Entity management fees payable (iii)	(1,368,342)	(1,636,295)
	(1,368,342)	(1,636,295)

(i) The Responsible Entity is entitled to a management fee of 1.50% p.a. (plus GST less RITC). These fees are calculated on the total gross asset value of the Scheme. The Responsible Entity has waived a portion of its management fee during the period;

(ii) The Responsible Entity incurs costs on behalf of the Scheme for which it is reimbursed; and

(iii) Due to the delay in a number of asset sales that were due to occur during the previous financial year, the Responsible Entity agreed to defer the payment of its management fee for the period 1 September 2011 to 31 December 2011.

Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. There have been no guarantees provided or received for any related party receivables.

(b) Units in the Scheme held by other related parties

As at 31 December 2011 no Directors of the Responsible Entity held units in the Scheme (30 Jun 2011: nil).

Pacific First Mortgage Fund
Notes to the interim financial statements
For the six months ended 31 December 2011

Note 9 Financial risk management

The Scheme's financial risk management objectives and policies are consistent with that disclosed in the Annual financial report as at and for the year ended 30 June 2011.

(a) Credit risk

Loans secured by property at Martha Cove

As at 31 December 2011, the Group had the following mortgage loans and interest receivable, after impairment losses, secured by registered first and second mortgages over land situated at Martha Cove, Victoria. The recoverability of these loans are supported by independent valuations, appraisals from real estate agents, actual sales prices realised and estimates from management in relation to the fair value of the security property on an orderly realisation basis.

	Consolidated	
	31 Dec 2011	30 Jun 2011
	\$	\$
Owing by Marina Cove Pty Limited	33,998,898	55,366,020
Owing by other parties	50,747,175	62,291,475
	84,746,073	117,657,495

The Group has recorded further unrealised impairment losses of \$11,497,448 (30 Jun 2011: \$129,713,024) in respect of mortgage loans and interest receivable secured by registered first and second mortgages over land situated at Martha Cove, Victoria, as outlined in Notes 4 and 6. The write off of 4 loans resulted in realised impairments losses of \$3,565,213 (30 Jun 2011: \$nil).

Marina Cove Pty Limited (Receivers and Managers Appointed) (in Liquidation) is a 100% owned entity by CP1 Limited (Controller Appointed) (Receivers and Managers Appointed) and the owner of a property development at Martha Cove, which is the mortgage security for the loans and interest receivable noted above. In addition to Marina Cove Pty Limited there are several other development companies with interests in property at Martha Cove, certain of these development companies, have sourced financing from other financiers and have provided mortgage security over property located at Martha Cove.

CP1 Limited (Controller Appointed) (Receivers and Managers Appointed), Marina Cove Pty Limited (Receivers and Managers Appointed) and all other development companies with interests in property at Martha Cove are in breach of finance facilities provided by the Group and/or other financiers. In addition, these companies have been placed into external administration and/or receivership and/or the mortgagee has taken possession of the securities during the period.

There is significant uncertainty in relation to the courses of action that financiers may take in relation to the realisation of property at Martha Cove held as security. Accordingly, the sale prices that maybe achieved through the realisation of the security property by financiers is uncertain. The realisable value of the Group's security property, located at Martha Cove, securing loans and interest receivable totalling \$84,746,073 (30 Jun 2011: \$117,657,495) at 31 December 2011 may be significantly reduced in the event that other properties at Martha Cove are realised at significantly lower values than the amounts used by the Responsible Entity in assessing the recoverability of the loans of the Group secured by property at Martha Cove.

Note 10 Litigation and contingent liabilities

The Scheme is party to litigation from a borrower alleging it had breached the finance facility agreement or alternatively breached the Trade Practices Act 1974 (Cth). The maximum amount of this contingent liability is estimated to be \$81 million (30 Jun 2011: \$81 million). The Responsible Entity has filed a defence denying liability in respect of this claim on 15 June 2010. No further action was taken by the plaintiffs to progress their claim until an amended statement of claim was filed in July 2011. The Responsible Entity considers it will be successful in these matters as the claim as amended is unrealistic.

The Directors are not aware of any material liability likely to arise to the Group as a result of litigation matters.

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Note 11 Events subsequent to reporting date

Economic outlook

The market for the Scheme's security properties continues to be extremely weak and this has the potential to adversely affect the Group's ability to realise assets at values recorded in the financial report.

Finance facility with Commonwealth Bank of Australia ("CBA")

Pursuant to the terms of the facility agreement, the Scheme was required to repay a further amount of \$500,000 against the facility as at 31 December 2011. This payment was made on 25 January 2012.

Other than the items noted above, there has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial periods.

Pacific First Mortgage Fund
Directors' declaration

In the opinion of the Directors of Trilogy Funds Management Limited, the Responsible Entity of Pacific First Mortgage Fund (Group):

- (a) The attached financial statements and notes, as set out on pages 5 to 16, are in accordance with the Corporations Act 2001, including;
- (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half year ended on that date: and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Philip A Ryan
Executive Director
Dated: 15 March 2012
Brisbane



Rodger I Bacon
Executive Deputy Chairman
Dated: 15 March 2012
Brisbane

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Unitholders of Pacific First Mortgage Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pacific First Mortgage Fund, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Directors of the Responsible Entity's Responsibility for the Half-Year Financial Report

The directors of the responsible entity of Pacific First Mortgage Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors of the responsible entity determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pacific First Mortgage Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the responsible entity, would be in the same terms if given to the directors of the responsible entity as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pacific First Mortgage Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the fund's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without modification to the above conclusion, we draw attention to Note 3(a) Going Concern to the financial statements which indicates that the ability of the Fund to continue as a going concern is dependent upon the Fund realising sufficient cash funding from the repayment or refinancing of existing mortgage loans of the Fund, to repay short term debt funding, provide funding for the ongoing business operations, recommence the payment of distributions and make an offer for redemptions to investors. Due to the matters set out in Note 3(a) Going Concern, a material uncertainty exists which casts significant doubt about the Fund's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the interim financial report.

Material Uncertainty Regarding the Carrying Value of Assets Secured by Property Located at Martha Cove, Victoria

Without qualification of the above opinion, we draw attention to note 9(a) to the financial statements. The recoverability of the Fund's mortgage loans and interest receivable which is secured by registered first and second mortgages over property located at Martha Cove, Victoria is dependent upon the realisation of security property occurring at values in line with those used by the Responsible Entity in assessing the recoverable amount of mortgage loans and interest receivable at 31 December 2011.

As set out in note 9(a) a number of other properties located at Martha Cove are security property for loans of other parties funded by various financiers, and many of the other parties are in external administration and/or receivership. The independent valuations have assumed a one line basis sale of the assets over a reasonable period taking into account an estimate of the markets ability to absorb sales. If sales were made at a greater rate or if they were sold in multiple lots then the value realised could be significantly less. If the whole project as it stands were sold in one line to a developer, they would seek a significant return on their investment which could lead to a sale at a substantial discount to the valuations that the properties are currently being carried at in the Interim financial report.



The existence of these material uncertainties casts significant doubt about the recoverability of the value of the Fund's mortgage loan assets secured by property located at Martha Cove, Victoria, which total \$84,746,073 at 31 December 2011 (30 June 2011: \$117,657,495).

BDO Audit (Qld) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Paul Gallagher', written over a faint BDO logo.

Paul Gallagher

Director

Brisbane, 15 March 2012