



13 August 2015

Dear Investor

BALMAIN AQUA HIGH INCOME TRUST UPDATE

Further to our previous correspondence dated 26 November 2014, we are able to provide the following update with regard to the NSW Supreme Court action undertaken by the senior lender, the outcome of this matter and the resultant effect on the Balmain Aqua High Income Trust ("the Trust"):

As per our previous update, a NSW Supreme Court trial was due to commence on the 29 May 2015, however the defendant's insurers made a pre-trial settlement offer to the senior lender, the Balmain AQUA Income Trust. Negotiations between the senior lender and the defendant's insurer have now been completed and an agreement has been reached and accepted by the senior lender.

As we have previously advised investors, the Trust had a subordinated interest in the outcome of the matter and would only receive payment, if any, following the extinguishment of the legal debt of the senior lender, the Balmain AQUA Income Trust. Unfortunately, the settlement monies were not in excess of the senior debt owed and therefore the Trust, in its subordinated debt position, will not receive any money in relation to the legal actions undertaken by the senior lender.

Aside from the above legal matter, the Trust still has two assets remaining. The Manager had expected a sale or partial sale of the Trust's most significant asset in June of this year, however this sale has not been realised at this stage. The Manager is unable to wind-up the Trust until such time as these two remaining assets are realised. We will continue to appraise investors of progress in relation to these matters.

Furthermore as this remaining asset now represents a significant part of the mortgage loan balance our auditors have requested a new valuation to be undertaken on the asset. This will result in a delay in finalising the annual taxation statements to be sent to investors. The estimated timing of the sending of these statements is the first week of September 2015.

Please call us if you have any questions regarding your investment in the Funds on 1800 225 624 or email us at balmainfunds@balmain.com.au

Yours sincerely

Michael Holm

CEO Balmain Funds

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