FIRST COMMONWEALTH
MORTGAGE TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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Independent Auditors' Report

To the Board of Trustees of
First Commonwealth Mortgage Trust
Houston, Texas

We have audited the balance sheets of First Commonwealth Mortgage Trust (the "Trust") as of December 31, 2005 and 2004, and the related statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Commonwealth Mortgage Trust at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

VHY Mann Frankfort Stein & Lipp CPAs, LLP

Houston, Texas
December 5, 2006

FIRST COMMONWEALTH MORTGAGE TRUST
BALANCE SHEETS

	December 31, 2005	December 31, 2004
ASSETS		
MORTGAGE NOTES RECEIVABLE		
Mortgage notes receivable, net of participations payable of $1,221,090 and $3,647,076 at December 31, 2005 and 2004, respectively	$ 9,429,812	$ 12,718,281
Discounts and deferred loan fees	(38,435)	(41,007)
Allowance for losses	(577,132)	(512,132)
TOTAL MORTGAGE NOTES RECEIVABLE, net	8,814,245	12,165,142
Cash and cash equivalents	3,392,138	347,178
Note receivable - affiliate	-	259,766
Accrued interest receivable, net of participation interest payable of $31,598 and $97,889 at December 31, 2005 and 2004, respectively	446,269	43,496
Other receivables	223,367	224,584
Computer equipment and software, net	-	-
Investments in affiliates	208,131	208,131
Investments in marketable securities	90,500	150,000
TOTAL ASSETS	$ 13,174,650	$ 13,398,297
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and other liabilities	$ 52,331	$ 37,327
Participations in excess of mortgage notes receivable	28,686	-
Dividend payable	-	301,306
Notes payable	1	99,948
TOTAL LIABILITIES	81,018	438,581
SHAREHOLDERS' EQUITY		
Shares of beneficial interest, no par value, unlimited shares authorized, 1,394,571 issued and 1,391,571 outstanding at December 31, 2005 and 1,384,571 issued and 1,381,571 outstanding at December 31, 2004	13,760,823	13,660,823
Accumulated deficit	(580,691)	(674,107)
Accumulated other comprehensive loss	(59,500)	-
	13,120,632	12,986,716
Less: treasury stock; 3,000 shares at cost	(27,000)	(27,000)
TOTAL SHAREHOLDERS' EQUITY	13,093,632	12,959,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,174,650	$ 13,398,297

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF INCOME

	Year Ended December 31,	
	2005	2004
REVENUE		
Interest income	$ 1,281,159	$ 1,451,632
Service fees and miscellaneous income	84,429	51,612
	1,365,588	1,503,244
COSTS AND EXPENSES		
Advisory fees to affiliate	162,588	180,680
Provision for bad debts	65,000	445,000
Professional fees	48,352	41,179
Interest expense	4,478	27,832
General and administrative	73,316	50,983
	353,734	745,674
NET INCOME	$ 1,011,854	$ 757,570
WEIGHTED AVERAGE SHARES OUTSTANDING	$ 1,390,738	$ 1,314,054
NET INCOME PER SHARE, basic	$ .73	$ .58

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2005	2004
NET INCOME	$ 1,011,854	$ 757,570
OTHER COMPREHENSIVE INCOME:		
UNREALIZED LOSS ON SECURITIES:		
Unrealized holding losses arising during period	(59,500)	-
COMPREHENSIVE INCOME	$ 952,354	$ 757,570

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004

	Shares of Beneficial Interest		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount				
Balance, January 1, 2004	1,294,671	$ 12,791,823	$ 11,097	$ -	$ (27,000)	$ 12,775,920
Issuance of shares of beneficial interest	86,900	869,000	-	-	-	869,000
Cash dividends, $1.10 per share	-	-	(1,442,774)	-	-	(1,442,774)
Comprehensive income:						
Net income	-	-	757,570	-	-	757,570
Total comprehensive income						757,570
Balance, December 31, 2004	1,381,571	13,660,823	(674,107)	-	(27,000)	12,959,716
Issuance of shares of beneficial interest	10,000	100,000	-	-	-	100,000
Cash dividends, $0.66 per share	-	-	(918,438)	-	-	(918,438)
Comprehensive income:						
Net income	-	-	1,011,854	-	-	1,011,854
Unrealized loss on marketable securities	-	-	-	(59,500)	-	(59,500)
Total comprehensive income						952,354
Balance, December 31, 2005	1,391,571	$ 13,760,823	$ (580,691)	$ (59,500)	$ (27,000)	$ 13,093,632

See accompanying notes to financial statements.

FIRST COMMONWEALTH MORTGAGE TRUST
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,011,854	$ 757,570
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of discounts and deferred loan fees	(2,572)	(9,932)
Depreciation	-	399
Provision for bad debts	65,000	445,000
Changes in operating assets and liabilities:		
Accrued interest receivable, net of participations	(186,503)	(94,480)
Prepaids and other receivables	1,217	(21,798)
Accounts payable and other liabilities	15,004	21,174
NET CASH PROVIDED BY OPERATING ACTIVITIES	904,000	1,097,933
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage note originations	(6,652,681)	(5,907,159)
Mortgage note participations sold	570,000	1,385,926
Principal collected on mortgage notes receivable, net of participation	9,399,836	3,248,021
Advances on affiliate notes receivable	-	(142,500)
Proceeds from affiliate notes receivable	43,496	329,004
Proceeds from (payments on) property held for investment	-	160,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,360,651	(926,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	100,000	869,000
Net change in line of credit	(99,947)	99,947
Cash dividends paid	(1,219,744)	(1,141,468)
NET CASH USED IN FINANCING ACTIVITIES	(1,219,691)	(172,521)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,044,960	(1,296)
CASH AND CASH EQUIVALENTS, beginning of year	347,178	348,474
CASH AND CASH EQUIVALENTS, end of year	$ 3,392,138	$ 347,178
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 4,478	$ 30,646
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on marketable securities	$ 59,500	$ -
Notes payable transferred to participations payable	$ -	$ 450,000

See accompanying notes to financial statements.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

First Commonwealth Mortgage Trust (the "Trust") was organized as a Massachusetts business trust on September 26, 1984 and commenced operations on June 27, 1985. The Trust is engaged primarily in the business of investing in loans collateralized by mortgages on real estate projects. First Commonwealth Holdings Corporation ("FCHC"), whose principal shareholder is a trustee and shareholder of the Trust, is the Trust's compensated manager and advisor.

Cash and Cash Equivalents: The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Trust maintains cash balances in a bank which, at times, exceeds federal insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with this account.

Mortgage Notes Receivable: Mortgage notes receivables are carried at unpaid principal balance since generally it is management's intention to hold mortgage notes to maturity. Commitment and origination fees collected from prospective borrowers are deferred and recognized as income using a method approximating the interest method over the life of those loans.

A loan is considered impaired when it is probable that the scheduled principal or interest will not be collected when due. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or collateral fair value, if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment loss is recognized through a valuation allowance and a corresponding charge to income.

Allowance for Losses: The allowance for losses is based on management's estimate of the amount required to maintain an allowance adequate to reflect the risks inherent in the loan portfolio after giving consideration to existing economic conditions, loss experience in relation to outstanding loans, changes in the loan portfolio, borrowers' performance in reducing loan principal, adequacy of loan collateral, and other relevant factors.

Computer Equipment and Software: Computer equipment and software are stated at cost and are depreciated utilizing the straight-line method over an estimated useful life of three and five years, respectively. Depreciation expense for the Trust totaled $0 and $399 during the years ended December 31, 2005 and 2004, respectively.

Marketable Securities: Marketable securities are classified as available-for-sale and are stated at fair value, with unrealized gains and losses included in a separate component of shareholders' equity.

Interest Income: Interest income on loans is accrued based upon the principal amount outstanding.

If a loan is placed on nonaccrual status, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on such a loan is credited to principal if, in the opinion of management, collectibility of principal is doubtful; otherwise, the interest collected is recognized as revenue.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income is comprised of net income and all changes to shareholders' equity, except those due to investments by owners (changes in paid-in capital, if any) and distributions to owners (dividends). At December 31, 2005, unrealized holding losses on securities available-for-sale are the Trust's only accumulated other comprehensive income component. At December 31, 2004, the Trust had no unrealized holding gains or losses.

Net Income per Share: Net income per share is calculated by dividing net income by the weighted average number of shares of beneficial interest outstanding during the year. The Trust has no items that give rise to anti-dilutive shares. Accordingly, basic and dilutive shares presented are the same.

Concentrations of Credit Risk: The Trust's primary business activity is investing in loans collateralized by mortgages on real estate projects. These loans are principally collateralized by real estate in Texas, Florida, New Mexico, Arizona and Oklahoma.

Management Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the value of collateral and, therefore, the resulting allowance for losses. Actual results could differ from those estimates.

Reclassifications: Certain amounts in 2004 have been reclassified to conform to the 2005 presentation.

NOTE B - MORTGAGE NOTES RECEIVABLE AND COMMITMENTS

Notes receivable from funding mortgage loans are principally collateralized by first mortgage loans on commercial or residential property and are due at various dates, with the latest maturity due in 2025. Notes receivable bear interest at rates ranging from 9.5% to 15%.

Additionally, certain of the mortgage notes receivable contain equity features that may provide the Trust with income in excess of the stated rate of the notes, although realization of such income cannot be assured.

Commitments to lend additional funds were approximately $3,217,900 at December 31, 2005. There are no commitments to lend additional funds to borrowers whose loans are impaired.

NOTE C - NOTES RECEIVABLE - AFFILIATE

At December 31, 2004, the Trust had a note receivable of $43,496 from an affiliated business trust (see Note D). Interest income related to this note for the years ended December 31, 2005 and 2004 was approximately $300 and $13,900, respectively. This note was repaid during 2005.

NOTE D - INVESTMENTS IN AFFILIATES

The Trust participates with Holly Mortgage Trust ("Holly"), a Massachusetts business trust, for the purpose of investing in second mortgages and equity participation mortgages. At December 31, 2005 and 2004, the Trust also owns 58,131 shares of beneficial interest in Holly, which comprises approximately 4.1% of the outstanding shares in Holly. The investment is recorded using the cost method. The cost of this investment was $58,131 at December 31, 2005 and 2004.

The Trust owns 150 partnership units of Global REIT, L.P. The Trust accounts for this investment using the cost method of accounting. The cost of this investment was $150,000 at December 31, 2005 and 2004.

NOTE E - MARKETABLE SECURITIES

From time to time, the Trust invests its excess funds in short-term equity securities in order to maximize earnings. The cost basis and fair market values of marketable securities available-for-sale were as follows:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2005:				
Available-for-sale securities	$ 150,000	$ -	$ (59,500)	$ 90,500
December 31, 2004:				
Available-for-sale securities	$ 150,000	$ -	$ -	$ 150,000

NOTE F - NOTES PAYABLE

The Trust has a $500,000 revolving line of credit facility with a bank, collateralized by the Trust's mortgage notes receivable. The borrowing arrangement bears interest at 8%. Interest is payable monthly. At December 31, 2005 and 2004, $1 was outstanding under the line of credit. This line of credit is guaranteed by FCHC and matures during September 2007.

At December 31, 2004, the Trust had $99,947 in borrowings under a revolving line of credit facility with a bank. This line matured in September 2005 and was not renewed.

For the years ended December 31, 2005 and 2004, interest expense was $4,478 and $28,926, respectively.

NOTE G - FEDERAL INCOME TAXES

The Trust operates in such a manner to qualify as a “real estate investment trust” under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust’s otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2005 and 2004. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	Year Ended December 31,	
	2005	2004
Ordinary income	$ 0.66	$ 1.10

NOTE H - ADVISORY AGREEMENT AND RELATED PARTY TRANSACTIONS

Advisory fees paid to FCHC were approximately $163,000 and $181,000 for the years ended December 31, 2005 and 2004, respectively. The advisory fee is based on 1.4% of the book value of the assets of the Trust at the end of each fiscal year.

During 2005, the Trust engaged in ten mortgage participation receivables with various affiliated business trusts. At December 31, 2005, the Trust had five outstanding mortgage participation receivables that totaled $2,758,681 and are included in mortgage notes receivable, net on the balance sheet. The participations incur interest at rates ranging from 3.5% to 18% (excluding possible contingent interest rates up to 8.5%) and maturity dates ranging to August 2011. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations collected by the affiliates on the Trust’s behalf amounted to approximately $202,000 for the year ended December 31, 2005.

During 2004, the Trust engaged in seven mortgage participation receivables with various affiliated business trusts. At December 31, 2004, the Trust had six outstanding mortgage participation receivables that totaled $1,484,000 and are included in mortgage notes receivable, net on the balance sheet. The participations incur interest at rates ranging from 3.5% to 14% (excluding possible contingent interest rates up to 8.5%) and maturity dates ranging from September 2005 to October 2010. The notes are secured by various affiliated business trusts and/or second mortgages. Interest income on such participations collected by the affiliates on the Trust’s behalf amounted to approximately $144,800 for the year ended December 31, 2004.

During 2004, the Trust engaged in two mortgage participations payable with an officer of the Trust. At December 31, 2004, the Trust had two outstanding mortgage participations payable that totaled $175,000 and are included in Mortgage Notes Receivable, net on the balance sheet. The participations incur interest at 12% and 11% and matured in May 2005. The participations are secured by an affiliated business trust. Interest collected on these participations and passed through to the participant was approximately $10,700 and $21,900 for the years ended December 31, 2005 and 2004, respectively.

NOTE I - SIGNIFICANT MORTGAGE NOTES RECEIVABLE

At December 31, 2005, five mortgage notes receivable represented approximately 44% of total mortgage notes receivable, net of participations. Interest related to these notes was approximately 52% of total interest income for the year ended December 31, 2005.

At December 31, 2004, seven mortgage notes receivable represented approximately 62% of total mortgage notes receivable, net of participations. Interest related to these notes was approximately 57% of total interest income for the year ended December 31, 2004.