



Tel: +61 7 3237 5999  
Fax: +61 7 3221 9227  
www.bdo.com.au

Level 10, 12 Creek St  
Brisbane QLD 4000  
GPO Box 457 Brisbane QLD 4001  
Australia

## TO THE INVESTOR AS ADDRESSED

2 May 2014

**LM FIRST MORTGAGE INCOME FUND  
(RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)  
ARSN 089 343 288  
(‘the Fund’ or ‘FMIF’)**

I refer to my report on 19 February 2014 and now provide my fifth update to investors in relation to the winding of up of the Fund, as follows.

**1. Position of the Secured Creditor and the potential claim by KordaMentha, the trustee of the LM Managed Performance Fund (“MPF”)**

At the time of my previous report to investors on 19 February 2014, the secured creditor had been repaid in full, however, the Receivers and Managers appointed by the secured creditor had advised that they are not in a position to retire until the potential claim by KordaMentha as the new trustee of the MPF is resolved.

As fairly limited information supporting the claim has been presented by the MPF and bearing in mind the secured creditor has not formally been put on notice of any claims, I contend that the Receivers and Managers should retire and have been liaising with them to determine when this may occur.

In this respect, I met with McGrathNicol and KordaMentha on 23 April 2014 to discuss the position further.

At that meeting, KordaMentha advised that they would prioritise their investigations with a view to determining if they have a claim against the secured creditor or if they can confirm that no claim will be brought by them. They did not however commit to any timeframe to complete their investigations.

Subsequent to that meeting with KordaMentha, I advised McGrathNicol that if KordaMentha does not provide an appropriate release to the secured creditor within one month (ie by 23 May 2014) then I will make an application to court for directions and seek an order that the Receivers and Managers retire.

As previously advised, until the KordaMentha position becomes clearer, the secured creditor releases its security and the Receivers and Managers retire, I will not be in a position to recommence distributions to investors.

## 2. Appeal Lodged by FTI

As previously advised, the Liquidators of LMIM have appealed the court's decision that led to my appointment as Receiver of the Fund's assets and person responsible to ensure it is wound up pursuant to its constitution.

The appeal hearing was heard on 28 November 2013 however the decision has been reserved and is still awaited.

A copy of the court order setting out the decision will be placed on the website [www.lmfimf.com](http://www.lmfimf.com) when released.

## 3. Realisation of Assets

In my report dated 4 December 2013, I provided a summary of the assets to be realised. In the tables below, I summarise the assets realised since then and those remaining to be realised.

The assets to be realised show those that are subject to contract, offers received and current strategy for disposal. With the exception of one loan, FMIF holds the first registered mortgage. The valuations of the individual assets are not included so as to not prejudice any negotiations in relation to the sale of the properties.

### Assets realised in full

Location	Description of asset	Status
ACT	Mixed use development site (7,056m <sup>2</sup> ) with DA approval for 278 residential units and a child care centre.	Settled on 6 December 2013.
QLD	The development comprises of 5 separate multi-storey buildings with a total of 119 residential units with 109 sold as at 30 November 2013.	The last of the ten remaining units settled on 17 March 2014.
WA	12 luxury residential units with 11 sold as at 30 November 2013.	The remaining unit settled on 28 February 2014.

### Assets with partial realisations

Location	Description of asset	Status
QLD	90 strata titled hotel rooms. As at 30 November 2013 58 units remained, with 40 under contract at that time. Since then, a further 42 units have settled. Of the remaining 16 units, 1 is currently under contract.	Under contract/ Offers received/ On the market
NSW	The development comprises of 83 strata titled office lots with 63 of these units charged to the Fund. Of the 63 units, 59 remained as at 30 November 2013. Since that time, a further two units have been sold.	On the market
WA	The development has been subdivided into three super lots. The first lot consists of a residential subdivision with 9 created lots and an englobo parcel of land (7.7851 ha), this was sold in January 2014. The second lot comprises of an englobo parcel of land (1.6128 ha) currently zoned as mixed use. A DA had previously been granted for 86 grouped dwellings, this is subject to a conditional offer. The third lot is currently zoned as mixed business (1.6291 ha). In addition to the above security there is also a charge over the guarantor's home.	On the market/ Offer received
QLD	The development is an eight stage project to provide 116, 3 or 4 bedroom townhouses. There is 1 remaining lot from Stage 6 which is under contract, 10 of the 14 completed lots from stage 7 are under contract with 12 lots from Stage 8 completed in April 2014.	On the market/ Under contract
VIC	61 strata titled units within a larger purpose built self-storage facility.	Under contract
QLD	Residential land subdivision. 3 constructed detached dwellings (1 sold, 1 under offer), 16 completed residential land lots (under offer for purchase in one line), 80 lots with operational works approval and additional land (approx. 57ha) with or pending development approval.	Completed lots under contract or on the market/balance land preparing to market
NSW	Industrial development site with partly constructed (40-50%) strata titled development of warehouse/retail/office precinct. DA approval for a mixed use industrial estate of 56 units, comprising of 30 industrial units, 13 high tech units, 12 retail units and a child care facility.	Under contract



Assets to be realised

Location	Description of asset	Status
NSW	The security is comprised of 4 units within a larger purpose built commercial building. Two adjoining units are occupied by a dance and yoga studio with the other two units unoccupied. A sale of the occupied units was completed in June last year. The remaining vacant units are currently being marketed.	On the market
QLD	A supported living community, comprising of 64 independent living units with the proposed development of a further 76 units. Of the current 64 units, 20 are vacant.	Agent about to be appointed
NSW	A supported living community, with 83 completed independent living units. 28 units are currently vacant.	Agent about to be appointed
QLD	A supported living community, with 37 completed independent living units plus balance land for further development. There are also a further 7 completed detached dwellings and a partly constructed subdivision of c.100 townhouse/small dwelling lots under community title plus residual land.	Agent about to be appointed
QLD	72 strata titled unit resort complex with management rights. 15 units have been sold to date with 57 units remaining.	Legal action in course/Preparing to market
QLD	Two supported living communities. One currently has 62 completed units (20 vacant) with a further 106 proposed. The other has 110 completed units, with 21 units currently vacant.	Borrower in control of asset
VIC	A supported living community, with 60 completed independent living units (no vacancies) with a further 132 units proposed.	Individual units for sale/ Agent about to be appointed
TAS	A supported living community, with 26 completed independent living units (3 vacant) and a further 18 proposed.	Agent about to be appointed

#### 4. Other Potential Recoveries/Legal Actions

My report of 4 December 2013 identified various matters which required additional investigation to determine whether there were any potential legal actions for dealings which occurred prior to my appointment as Receiver.

These investigations are ongoing with solicitors having provided advice and briefed counsel in relation to one substantial claim with a view to preparing a statement of claim and commencing proceedings.

Once proceedings are commenced or my investigations are complete in relation to each of the matters, I will update investors accordingly.

#### 5. Estimated Return to Investors

Based on the professional valuations and offers received for the properties charged to the Fund, I provide an estimated return to Investors of between 12 and 18 cents in the dollar as at 31 March 2014, calculated as follows:

	Low	High
	\$	\$
Cash at Bank	11,392,371	11,392,371
Funds held in trust	1,198,328	1,198,328
Estimated selling prices of properties to be sold	63,067,392	88,931,541
<i>Less:</i>		
Selling costs (3.5% of sale price)	(2,207,359)	(3,112,604)
Land tax & rates	(193,858)	(193,858)
Other unsecured creditors	(8,263,954)	(8,213,954)
FTI Fees & legal costs claimed (subject to approval)	(3,069,000)	(3,069,000)
Receivers and Managers' Fees (McGrathNicol)	(82,000)	(82,000)
Receiver's fees & outlays (BDO)	(775,305)	(775,305)
<b>Estimated net amount available to investors as at 31 March 2014</b>	<b>61,066,616</b>	<b>86,075,520</b>
Total investor units	488,787,330	488,787,330
<b>Estimated return in the dollar</b>	<b>0.12</b>	<b>0.18</b>

The above table does not take into account future operating costs, future Receivers fees and future rates and land tax. It also excludes any legal recoveries against borrowers, valuers or other third parties.

Please note that the distribution to Investors will take place after paying secured creditors, land tax, rates, Receivers fees and the unsecured creditors who rank ahead of Investors' interests.

#### **6. Distributions to Investors**

As previously advised, I am on notice from KordaMentha that the MPF potentially have a breach of trust claim against the Fund. In addition, the Receivers and Managers who were appointed to Bellpac have put me on notice not to distribute funds until the proceedings mentioned in my last report dated 4 December 2013 are resolved and also due to the MPF position, the secured creditor has not yet released its charge or retired its Receivers.

Once the Receivers and Managers have retired and funds released to me, I will be required to retain certain funds to meet the liabilities of the Fund, including contingent claims that may arise from the Bellpac litigation, the funds received for the loan/lease agreements of the aged care facilities and potentially in relation to the KordaMentha claims.

I may have to seek the directions of the court before proceeding with the next distribution.

I will update investors as to the expected timing of a distribution as these matters become clearer.

#### **7. Previous requests for redemption of units**

A number of investors have raised queries regarding redemption requests previously submitted to the responsible entity of the Fund.

I understand that prior to my appointment over 85% of investors had made redemption requests. Redemption requests had been placed in a queue system and were processed as and when funds allowed.

Any redemption requests outstanding at the time of my appointment as the person responsible to wind up the Fund in accordance with its constitution will not now be processed.

In accordance with the terms of the Constitution of the Fund all assets will be realised and all liabilities of the Fund will be paid with investors receiving the balance monies on a pro rata basis based on their individual investments.

For investors of the feeder funds, it will be the responsible entities of the feeder funds that receive the pro rata distribution. The responsible entities of the feeder funds will distribute funds to investors of these funds based on the terms of the constitutions of those funds.

#### **8. Management Accounts**

I am currently liaising with the BDO auditors and LM staff with a view to providing the management accounts for the year ended 30 June 2013 and the half year ended 31 December 2013. These accounts will be prepared in accordance with the relevant accounting standards and will be posted on the website [www.lmfmf.com](http://www.lmfmf.com) as soon as they are finalised.

#### **9. Ongoing Reporting to Investors**

Reports will be distributed to investors in accordance with the preferred method of correspondence recorded for each investor on the Fund's database. In order to assist in reducing distribution costs, it would be appreciated if as many investors as possible could provide an email address in this respect. Please use the details in section 11 below to advise us in this regard.

My next report to investors will be issued in July 2014.

#### 10. Receiver's Remuneration and Expenses

I attach a summary of my remuneration and outlays for the period from my appointment on 8 August 2013 to 31 March 2014. My remuneration incurred during this period totals \$638,618.50 plus outlays of \$52,511.95 plus GST, giving a total of \$760,243.50 including GST.

Approval of my fees will be subject to court approval on an ongoing basis. An application to court for the period ending 31 March 2014 will be lodged today and investors will be notified after the initial application has been heard to confirm the process of service for the main application and when the main application will be heard by the Supreme Court of Queensland. A copy of my application and supporting affidavits will be posted on the website [www.lmfimf.com](http://www.lmfimf.com).

In addition to the remuneration forming part of the court application, I also attach a summary of my remuneration and outlays for the period from 1 April 2014 to 28 April 2014.

My remuneration incurred during this period totals \$83,856.50 plus outlays of \$317.70 plus GST.

#### 11. Queries

Should unit holders require further information, please contact either Investor Relations or BDO on the details provided below.

##### Investor Relations

Phone: +61 7 5584 4500  
Fax: +61 7 5592 2505  
Email: [mail@lmaustralia.com](mailto:mail@lmaustralia.com)

##### BDO

GPO Box 457  
Brisbane QLD 4001  
Phone: +61 7 3237 5999  
Fax: +61 7 3221 9227  
Email: [enquiries@lmfmif.com](mailto:enquiries@lmfmif.com)

Yours faithfully



David Whyte  
Receiver

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)  
8 AUGUST 2013 to 31 MARCH 2014

Employee	Position	Rate	Total Units	Total \$	Assets		Administration		Creditors		Investigations		Trade-on	
					Units	\$	Units	\$	Units	\$	Units	\$	Units	\$
Whyte, David	Partner	560.00	366.70	205,352.00	205.10	114,856.00	58.00	32,480.00	3.80	2,128.00	6.80	3,808.00	93.00	52,080.00
Newman, Helen	Partner	560.00	0.20	112.00	0.00	0.00	0.10	56.00	0.00	0.00	0.10	56.00	0.00	0.00
Jenkins, Craig	Audit - Partner	485.00	2.90	1,406.50	0.00	0.00	0.00	0.00	0.00	0.00	2.90	1,406.50	0.00	0.00
Jenkins, Craig	Audit - Partner	475.00	3.00	1,425.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00	1,425.00	0.00	0.00
Beauchamp, Margaux	Corporate Finance - Director	460.00	244.70	112,562.00	242.40	111,504.00	2.30	1,058.00	0.00	0.00	0.00	0.00	0.00	0.00
Somersville, John	Senior Manager	425.00	19.40	8,245.00	3.80	1,615.00	11.10	4,717.50	2.30	977.50	0.00	0.00	2.20	935.00
Haines, Charles	Senior Manager	425.00	238.20	101,235.00	15.30	6,502.50	6.50	2,762.50	15.80	6,715.00	198.10	84,192.50	2.50	1,062.50
Garcia, Joanne	Manager	390.00	422.10	164,619.00	183.60	71,604.00	103.10	40,209.00	86.70	33,813.00	3.90	1,521.00	44.80	17,472.00
Wilson, James	Manager	390.00	1.40	546.00	0.20	78.00	0.20	78.00	1.00	390.00	0.00	0.00	0.00	0.00
Albert, Anthony	Tax - Manager	390.00	0.30	117.00	0.00	0.00	0.30	117.00	0.00	0.00	0.00	0.00	0.00	0.00
Pagcu, Julie	Audit - Senior Manager	350.00	15.00	5,250.00	0.00	0.00	0.00	0.00	0.00	0.00	15.00	5,250.00	0.00	0.00
Simpson-Wade, Ashleigh	Supervisor	350.00	0.10	35.00	0.00	0.00	0.10	35.00	0.00	0.00	0.00	0.00	0.00	0.00
Dharmaratne, Michael	Senior Accountant I	310.00	29.80	9,238.00	2.90	899.00	10.00	3,100.00	16.90	5,239.00	0.00	0.00	0.00	0.00
Tipman, Daniel	Senior Accountant I	310.00	0.80	248.00	0.00	0.00	0.20	62.00	0.60	186.00	0.00	0.00	0.00	0.00
Kennedy, Nicola	Accountant II	190.00	14.30	2,717.00	3.30	627.00	11.00	2,090.00	0.00	0.00	0.00	0.00	0.00	0.00
Taniran, Ryclo	Corporate Finance - Accountant II	175.00	145.20	25,410.00	144.20	25,235.00	1.00	175.00	0.00	0.00	0.00	0.00	0.00	0.00
Ritchie, Sara	Tax - Practice Assistant	130.00	0.20	26.00	0.00	0.00	0.20	26.00	0.00	0.00	0.00	0.00	0.00	0.00
Richardson, Ashley	Team Assistant	75.00	1.00	75.00	0.00	0.00	1.00	75.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>			<b>1,505.30</b>	<b>638,618.50</b>	<b>800.80</b>	<b>332,920.50</b>	<b>205.10</b>	<b>87,041.00</b>	<b>127.10</b>	<b>49,448.50</b>	<b>229.80</b>	<b>97,659.00</b>	<b>142.50</b>	<b>71,549.50</b>
			<b>GST</b>	<b>63,861.85</b>										
			<b>TOTAL INC GST</b>	<b>702,480.35</b>										
			<b>AVERAGE HOURLY RATE</b>	<b>424.25</b>	<b>415.73</b>	<b>424.38</b>	<b>389.05</b>	<b>424.97</b>	<b>502.10</b>					

DISBURSEMENT REPORT  
LM First Mortgage Income Fund (Receiver Appointed)  
8 August 2013 to 31 March 2014

Item	
Accommodation	339.56
Airfares	2,152.90
Car Hire	305.69
Meeting Expenses	520.65
Mileage	113.40
Parking	422.11
Photocopy	17,227.22
Postage	14,954.59
Printing	11,189.56
Search Fee	3,337.44
Taxi fares	64.84
Website Maintenance	1,883.99
<b>Sub Total</b>	<b>52,511.95</b>
<b>GST</b>	<b>5,251.20</b>
<b>Total</b>	<b>57,763.15</b>



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 April 2014 to 28 April 2014**  
**LM First Mortgage Income Fund (Receiver Appointed)**

Employee	Position	Rate	Totals		Task Area										Other						
			hrs	\$	Assets	Creditors	Employees	Trade On	Investigations	Dividends	Administration	Other									
David Whyte	Partner	560	54.5	30,520.00	111.1	6,216.00	2.7	1,512.00	0.0	0.00	7.6	4,256.00	2.1	1,176.00	0.0	0.00	31.0	17,360.00	0.0	0.00	
Margaux Beauchamp	Associate	460	8.7	4,002.00	8.7	4,002.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	
Charles Haines	Senior Manager	425	36.7	15,597.50	3.5	1,487.50	0.0	0.00	0.0	0.00	0.0	0.00	10.8	4,590.00	0.0	0.00	22.4	9,520.00	0.0	0.00	
John Somerville	Senior Manager	425	2.2	935.00	0.0	0.00	0.0	0.00	0.0	0.00	1.1	467.50	0.0	0.00	0.0	0.00	1.1	467.50	0.0	0.00	
Joanne Garcia	Manager	390	76.3	29,757.00	0.0	0.00	5.2	2,028.00	0.0	0.00	15.8	6,162.00	0.0	0.00	0.0	0.00	55.3	21,567.00	0.0	0.00	
Michael Dharmaratne	Senior Accountant I	310	0.8	248.00	0.0	0.00	0.4	124.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.4	124.00	0.0	0.00	
Daniel Tipman	Senior Accountant I	310	2.1	651.00	0.0	0.00	1.4	434.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.7	217.00	0.0	0.00	
Dean Michalk	Senior Accountant II	270	0.1	27.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.1	27.00	0.0	0.00	
Nicola Kennedy	Accountant II	190	7.3	1,387.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	7.3	1,387.00	0.0	0.00	
Rycko Taniran	Accountant II	175	2.5	437.50	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	2.5	437.50	0.0	0.00	
Dermot O'Brien	Undergraduate	155	1.9	294.50	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	1.9	294.50	0.0	0.00	
<b>TOTALS</b>			<b>193.1</b>	<b>83,856.50</b>	<b>23.3</b>	<b>11,705.50</b>	<b>9.7</b>	<b>4,098.00</b>	<b>0.0</b>	<b>0.00</b>	<b>24.5</b>	<b>10,885.50</b>	<b>12.9</b>	<b>5,766.00</b>	<b>0.0</b>	<b>0.00</b>	<b>122.7</b>	<b>51,401.50</b>	<b>0.0</b>	<b>0.00</b>	
			GST	8,385.65																	
			TOTAL INC GST	92,242.15																	
			AVERAGE HOURLY RATE	434	502	422	444	447	419												

Note: All amounts exclude GST unless otherwise noted

**DISBURSEMENT REPORT**  
**LM First Mortgage Income Fund (Receiver Appointed)**  
**01 August 2014 to 28 April 2014**

Item	
Printing	317.70
Sub Total	317.70
GST	31.77
Total	349.47