

TO THE INVESTOR AS ADDRESSED

4 August 2014

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

I refer to my previous reports and now provide my sixth update to investors in relation to the winding 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")

As previously advised, despite the secured creditor having been repaid in full, the Receivers and Managers appointed by the secured creditor have 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.

At a meeting on 23 April 2014, KordaMentha advised that they would prioritise their investigations to determine if they have a claim against the secured creditor. To date, they have not provided an appropriate release to the secured creditor and therefore my solicitors wrote to their solicitors on 28 July 2014 requesting an update on what stage their investigations are at and if a claim will be made against Deutsche Bank.

In order to avoid the costs of making an application to the court for directions and to seek an order that the Receivers and Managers retire, I wrote to the Receivers and Managers on 4 July 2014 with a proposal to resolve the situation without the intervention of the court.

I have proposed that I takeover the realisation of assets and other matters being dealt with by the Receivers and Managers. This also includes an undertaking to not distribute any Fund monies except to meet the remuneration, costs and expenses in connection with my receivership to be paid from Fund assets pursuant to the order of Dalton J of 21 August 2013; or with the prior consent of Deutsche Bank AG.

The undertaking would remain in force until the earliest to occur of the following events:

- a. the release of Deutsche Bank AG's charge over the assets of the Fund;

- b. the determination or resolution of claims asserted by the trustees of the LM Managed Performance Fund; and
- c. the making of a court order releasing me from the undertaking

The Receivers and Managers have responded reiterating the secured creditor's rights under its securities and that they intend to continue the realisation of assets (excluding the retirement villages which they are content are sold under my instructions) and retaining control over the bank accounts and funds realised from asset realisations.

We maintain a good working relationship with the Receivers and Managers and will continue to work with them to achieve an appropriate outcome, so that investors are not disadvantaged and any duplication of costs are kept to a minimum.

2. Appeal Lodged by FTI

As previously advised, the Liquidators of LMIM 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 and the Court's decision to dismiss the appeal was handed down on 6 June 2014. A copy of the court order setting out the decision has been placed on the website www.lmfimf.com.

3. Realisation of Assets

In my report dated 2 May 2014, 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.

Assets realised in full

Location	Description of asset	Status
VIC	61 strata titled units within a larger purpose built self-storage facility.	Settled on 6 June 2014
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.	Settled on 31 May 2014

Assets with partial realisations

Location	Description of asset	
QLD	90 strata titled hotel rooms. Since my last report which included the position as at 31 March 2014, when 29 units remained, with 11 under contract at that time. Since then, a further 15 units have settled. Of the remaining 14 units, 6 are currently under contract.	Under contract/ Offers received/ On the market
WA	The development has been subdivided into three super lots.	On the market

Location	Description of asset	
	The first lot was sold in January 2014. Since my last report the second lot settled in July 2014. The remaining lot is currently on the market.	
QLD	The development is an eight stage project to provide 116, 3 or 4 bedroom townhouses. Of the 14 completed lots from stage 7, 4 have been sold since the date of my last report and a further 7 are under contract. Of the 12 lots from Stage 8 (the final stage), 5 are under contract.	On the market/under contract
QLD	Residential land subdivision. Since, my last report, the final constructed detached dwelling has settled together with 16 completed residential land lots. The remaining 80 lots with operational works approval and balance land are currently on the market.	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

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, 22 are vacant.	Agent appointed
NSW	A supported living community, with 83 completed independent living units. 28 units are currently vacant.	Agent 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 appointed

Location	Description of asset	Status
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 appointed
TAS	A supported living community, with 26 completed independent living units (3 vacant) and a further 18 proposed.	Agent 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. I provide an update in relation to investigations undertaken to date and further work to be done, as follows:

4.1 Public Examination

I have recently been successful in obtaining the approval from ASIC as an eligible applicant under the Corporations Act 2001 (the Act) to enable me to make application for a public examination (PE) of directors and other relevant parties to assist with my investigations into potential legal actions against several parties.

A PE is undertaken in the Magistrates Court and is a forum whereby I can ask the Court to summons the directors and other relevant parties to produce documents and to appear in Court and answer questions about the affairs of the FMIF. The answers given at the examination are under oath. Matters identified from the PE may be brought to the attention of ASIC as appropriate.

As I have to date experienced delay in gaining access to certain books and records that concern the FMIF, I anticipate that summoning certain parties to produce the documents needed for my investigations as part of a PE, will expedite my access to these records.

I have instructed my solicitors to commence preparation of an application for a PE.

4.2 Bellpac Proceedings

4.2.1 Settlement of Gujarat proceedings

For background, I summarise my December 2013 update to investors on this matter as follows:

- In November 2010, proceedings against Gujarat NRE Minerals Limited (Gujarat) were settled for a total amount of approximately \$45.6M;

- As MPF funded the majority of the costs of the litigation, the settlement proceeds received in 2011, were shared between the funds on the basis of a 65%/35% split with FMIF receiving \$32.9M and MPF \$12.7M. LMIM as responsible entity (RE) of the FMIF and as trustee of the MPF arrived at the decision to split the proceeds in this way after taking advice about splitting the proceeds under a litigation funding arrangement typically offered in the open market;
- According to the security held by FMIF and MPF over the property the subject of the litigation, FMIF held first priority to all of the proceeds of the settlement;
- LMIM appears to have preferred the interests of the MPF over the FMIF in splitting the proceeds of sale. Therefore there may be a claim against LMIM and/or the MPF in relation to this transaction.

I have undertaken extensive investigations in relation to this potential claim and I am taking legal advice in relation to same. As my investigations are on-going I am not presently in a position to disclose the nature of those investigations any further at this time.

4.2.2 Other Bellpac litigation

a. \$2 million of Gujarat Convertible Bonds

A summary of the background is as follows:

- FMIF has first ranking security over the assets of Bellpac;
- In August 2008 these Bonds (that had been issued by Gujarat to Bellpac also in August 2008), were issued by Bellpac to another party and then further transferred to other parties;
- The proceedings by Bellpac and its Liquidators commenced in January 2010. In 2012 Bellpac was successful in obtaining Orders that Bellpac is the true owner of the Bonds;
- The decision was appealed by the defendants in the Full Federal Court in 2013 which was unsuccessful. An application by the defendants for special leave to appeal the decision in the High Court was heard in November 2013 and was also unsuccessful.

A summary of developments is as follows:

- i. Gujarat, is a publicly listed company and changed its name to Wollongong Coal Limited (WCL) in April 2014;
- ii. The Bellpac Liquidators made application to WCL to convert \$1.5 million of the Bonds into shares, however WCL did not respond. In accordance with the terms of the Bonds, WCL is now obliged to redeem the nominal face value of these Bonds (plus interest) into cash and pay the funds to Bellpac;
- iii. A demand has now been made against WCL for \$2.44 million representing the face value of these Bonds of \$1.5 million plus interest;
- iv. As WCL has not responded, proceedings will need to be commenced by Bellpac and the Liquidators to seek to recover the redemption cash value of the Bonds plus interest.
- v. The remaining Bonds with a face value of \$500,000 could not be converted into shares until 1 July 2014. The Liquidators have now made application for conversion and if the bonds are not

converted to shares by 7 August 2014, a demand for the nominal value of the Bonds can also be pursued.

If the Liquidators are successful in realising the Bonds or any shares issued, FMIF will be the beneficiary of the funds recovered, after costs. I have been liaising with the solicitors for the Liquidators in relation to the ongoing matters as raised above.

FMIF is funding the litigation for the benefit of investors.

b. \$8 million of Gujarat Convertible Bonds

A summary of the background is as follows:

- The background is the same as the first two dot points of the \$2 million Bonds raised above;
- The proceedings by Bellpac and its Liquidators commenced in July 2012 seeking orders that Bellpac is the true owner of the Bonds and the recovery of \$4.7 million transferred by Bellpac (pre Liquidation) to two of the defendants.

A summary of developments is as follows:

- i. The Liquidators were required to and filed further Affidavit evidence on 1 April 2014;
- ii. A directions hearing was held on 30 July 2014, a timetable was set by the Court requiring the filing of certain documentation by a number of the defendants and a further directions hearing was set down for 7 October 2014.

If the Liquidators are successful in obtaining a declaration from the Court that Bellpac is the true owner of the Bonds, FMIF will be the beneficiary of the funds recovered from realising the Bonds, after costs. I have been liaising with the solicitors for the Liquidators in relation to the ongoing litigation as mentioned above.

In order to protect the interest of FMIF in Bellpac's claim to title to the Bonds, FMIF ought to continue to fund the Liquidators' in the proceedings. However, as a first priority, I propose to rigorously pursue the recovery of the cash and shares redemption of the \$2 million Bonds claim from WCL to determine WCL's financial capacity.

c. Proceedings against Bellpac Receivers and LMIM

A summary of the background is as follows:

- In February 2013, parties including the second mortgagee of Bellpac (plaintiffs) commenced proceedings against LMIM and the Receivers and Managers of Bellpac in relation to the alleged sale of the Bellpac property at an undervalue. The property that was sold formed part of the settled proceedings outlined at Section 4.2.1 above.

A summary of developments is as follows:

- i. In late 2013 the plaintiffs were successful in joining LM's insurers to the proceedings however the insurers appealed. The appeal decision was handed down on 30 June 2014 and was not successful;
- ii. LMIM as RE for FMIF and the other respondents are proposing to seek security for costs from the applicants;

- iii. Our solicitors have requested that all FMIF records in relation to the sale to Gujarat in preparation for the trial now be collated;
- iv. A directions hearing was held on 31 July 2014, a timetable was set down to address the intended security for costs applications by LMIM and other defendants with documentation to be filed by all parties by early October 2014.

4.3 Other Potential Claims against LMIM and related Parties

4.3.1 Management Service Agreements with LM Administration Pty Ltd (in Liquidation) (LMA)

For background, I summarise my December 2013 update to investors on this matter as follows:

- The audited accounts for the FMIF show that a total of approximately \$10.2M was paid to LMA (for the years ended 30 June 2011 and 30 June 2012) for loan management fees in replacement of appointing external receivers;
- Amounts totalling approximately \$2M were paid to LMA for the period from the 1 July 2012 to 19 March 2013;
- Legal and accounting advice was received by LMIM in relation to the charging of these fees.

I continue to undertake investigations in relation to these matters and I am taking legal advice in relation to same. As my investigations are on-going I am not presently in a position to disclose the nature of those investigations any further at this time.

4.3.2 Distribution to Class B Unit Holders

For background, I summarise my December 2013 update to investors on this matter as follows:

- During the financial year ended 30 June 2012 distributions of approximately \$16.9M were made to Class B unit holders at a time when class A and C unit holders did not receive any distributions;
- Class B unit holders, relate to the three feeder funds of FMIF;
- I am unaware of any rights of Class B unit holders which would entitle them to a priority distribution over other classes of unit holders in the Fund;
- The auditors qualified the financial statements in regard to this transaction;
- As a result of the distribution and reinvestment of a major portion of that distribution into units in FMIF, Class B unit holders increased their units in the fund from 44.33% to 46.14% at the expense of the Class A & C unit holders. This will result in the Class B unit holders receiving a greater amount in the winding up of the Fund.

A summary of developments is as follows:

- i. Further documentation has been provided to assist with my investigations however this is incomplete. Further investigations are required. I continue to undertake investigations in relation to these matters and I am taking legal advice in relation to same. As my investigations are on-going I am not presently in a position to disclose the nature of those investigations any further at this time.

4.3.3 Changes to Constitution

For background, I summarise my December 2013 update to investors on this matter as follows:

- The fund's constitution was amended several times since its initial execution on 24 August 1999;
- The terms of the constitution stipulate that it may be modified or repealed or replaced with a new constitution, by:
 - Special resolution of the members of the scheme; or
 - The Responsible Entity, if the Responsible Entity reasonably considers the change will not affect Members' rights.
- I am not currently aware of any special resolutions passed by members resolving to amend the terms of the constitution;
- I am aware of several changes to the permitted loan to valuation ratio ('LVR') of the fund commencing with an LVR of no more than 66.66% (Constitution dated 24 August 1999) to an LVR permitted not to exceed 85% of the value of the security property (after a loan has settled and where the RE considers it is in the best interests of the members)
- Further investigation is required to determine the effect of these amendments and whether or not there may be potential legal claims arising from that.

A summary of developments is as follows:

- i. I have gathered documentation to assist with my investigations, however further information is required to finalise my investigations. I continue to undertake investigations in relation to these matters and I am taking legal advice in relation to same. As my investigations are on-going I am not presently in a position to disclose the nature of those investigations any further at this time.

4.3.4 Fund Valuation Policy

For background, I summarise my December 2013 update to investors on this matter as follows:

- A review of the fund's compliance plan dated 16 March 2011 details the following regarding the fund's valuation policy:
 - Valuations may only be carried out by panel valuers; and
 - An updated valuation will generally be required for commercial loans at 24 month intervals and construction loans at 12 month intervals.
- From my preliminary enquiries, it appears that the Responsible Entity did not generally obtain updated professional valuations after the initial advance was made. Instead, in the majority of cases, they relied upon discounted cash flows prepared by management on the feasibility of a project.

A summary of developments is as follows:

- i. I have gathered documentation to assist with my investigations, however further information is required to finalise my investigations. I continue to undertake investigations in relation to these matters and I am taking legal advice in relation to same. As my investigations are on-going I am not presently in a position to disclose the nature of those investigations any further at this time.

4.3.5 External Valuations

I have commenced a review of the loans where material losses have occurred to ascertain whether the valuations relied on were too high and if there was negligence by the valuer which contributed to the losses.

My investigations are at an early stage and details of developments will be provided in my next update to investors.

4.4 Auditors

I have not at this stage been able to progress my investigations due to an inability to gain access to the auditor's working papers and all relevant FMIF records. I requested the relevant records from the auditors however I have been advised that they will not provide them without being issued with a subpoena. Accordingly, these matters will be considered as part of the upcoming PE process.

Once my investigations are complete in relation to each of the above 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 30 June 2014, calculated as follows:

	Low	High
	\$	\$
Cash at Bank	21,016,590	21,016,590
Funds held in trust	1,061,000	1,061,000
Estimated selling prices of properties to be sold	53,838,118	74,132,013
<i>Less:</i>		
Selling costs (2.5% of sale price)	(1,345,953)	(1,853,300)
Land tax & rates	(1,019,566)	(1,019,566)
Other unsecured creditors	(8,535,648)	(3,806,583)
FTI Fees & legal costs claimed (subject to approval)	(4,034,375)	(4,034,375)
Receivers and Managers' Fees (McGrathNicol)	(118,000)	(118,000)

Receiver's fees & outlays (BDO)	(1,165,645)	(1,165,645)
Estimated net amount available to investors as at 30 June 2014	59,696,522	84,212,135
Total investor units	478,478,997	478,478,997
Estimated return in the dollar	0.12	0.18

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. Updated Unit Price

I have received numerous requests to provide an updated unit price. In this regard, I provide below an updated unit price as at 30 June 2014 of 15 cents, which is based on the mid-point of the high and low estimated selling prices of the secured assets as at 30 June 2014.

	\$000's
Total Value of Fund Assets as at 30 June 2014 (net of land tax and rates)	86,063
Less Creditors and Other Payables	(14,748)
Total Net Value of Fund Assets	71,314
Total Number of Units as at 30 November 2013	478,479
Unit Price	0.15

I *attach* a copy of a letter that may be forwarded to Centrelink confirming the unit price as at 30 June 2014, and which may be used by investors to assist with the review of their pensions.

7. 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 at section 4.2.2 above 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 (which totals approximately \$10 million) 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.

8. Hardship payment requests

A number of investors have raised queries regarding hardship payment requests.

In October 2008, ASIC introduced a scheme whereby the Responsible Entity could apply for relief from their constitutional obligation to treat investors equally. Once the relief was granted, it was for the Responsible Entity to implement a process that was deemed appropriate for the particular fund and its circumstances. Payments under the hardship provisions were subject to the liquidity constraints of the fund.

Prior to the appointment of administrators to LM Investment Management Ltd (In Liquidation), hardship payments were made on a regular basis. However, the Fund is now in the process of being wound up and as such, payments under the hardship provisions can no longer be made.

9. Fees claimed by LM Investment Management Ltd (In Liquidation) (“LMIM”) (by its liquidators, FTI Consulting)

The liquidators of LMIM, Mr Park and Ms Muller, have submitted invoices from LMIM, made out to the Fund, totalling \$2,602,040 excluding GST to McGrathNicol for payment in relation to their remuneration and out of pocket expenses for the period from 19 March 2013 to 31 December 2013.

The claim can be broken down into the following three categories:

- Category 1 relates to time spent working on specific fund matters;
- Category 2 is in respect of LMIM’s role as the Responsible Entity of the Fund with the time spent by the liquidators and their staff being allocated across all Funds under their control based on a percentage of funds under management;
- Category 3 in relation to the appointments of LMIM as Controllers of a number of assets and where they are acting as agent for the mortgagee in possession.

	Paid to date (GST exclusive) \$	Outstanding (GST exclusive) \$
Direct time charged to work undertaken for the Fund - including outlays (category 1)		1,551,745
Allocation of Responsible Entity time (category 2)		1,014,826
Time charged in respect of the Controllerships (category 3)	145,643	35,469
	145,643	2,602,040

While the claims were submitted to McGrathNicol as the receivers and managers of the Fund assets appointed by Deutsche Bank, McGrathNicol have properly consulted me and are working with me to review and determine the claims.

Both McGrathNicol and I have raised legal questions as whether certain work done by the liquidators of LMIM can properly be charged to the Fund, as well as questions as to the quantum claimed. Although it is only a 'high level' comparison, on the basis of the limited detail provided with their claim, these fees appear high when compared with those of McGrathNicol and BDO, as follows:

	FTI (category 1) \$	FTI (category 2) \$	McGrathNicol \$	BDO \$	Total \$
19 March to 30 June 2013	657,581.36	656,166.86	n/a	n/a	
July 2013	546,132.50	123,496.08		n/a	
August 2013	142,979.00	98,022.91	293,830.00	33,563.50	
September 2013	55,452.50	62,837.13		84,460.50	
October 2013	38,807.00	38,239.55		111,262.00	
November 2013	55,543.00	24,749.86		116,373.00	
December 2013	21,359.00	11,313.73	412,658.00	45,895.00	
January 2014	<div style="display: flex; align-items: center; justify-content: center;"> <div style="font-size: 4em; margin-right: 10px;">{</div> <div style="text-align: center;"> Details not yet submitted </div> <div style="font-size: 4em; margin-left: 10px;">}</div> </div>			77,988.50	
February 2014			152,825.00	94,079.00	
March 2014				74,997.00	
April 2014			195,000.00	83,856.50	
May 2014				98,851.50	
June 2014			118,000.00	111,345.50	
	1,517,854.36	1,014,826.12	1,172,313.00	932,672.00	
Average per month from FTI appointment to 31 July 2013	273,261.01	176,995.12			450,256.14
Average per month from McGrathNicol's appointment to 30 June 2014			100,739.44	87,030.31	187,769.75

Figures are GST exclusive

Note: the amounts specified for BDO to 31 March 2014 are amounts claimed by me for remuneration which are the subject of my application to the Supreme Court filed on 2 May 2014 for approval of remuneration, which is yet to be determined by the Court. The amounts from 1 April 2014 to 30 June 2014 will be subject to approval of the court in due course.

McGrathNicol wrote to FTI on 5 June 2014 requesting further information to support their claim and have approved \$145,643.50 (excluding GST) of a total of \$181,112 (excluding GST) in respect of category 3 invoices.

Subsequently, I put a proposal to FTI on 10 July 2014 to try and deal with their claim in the most cost effective way for investors and asked them to address a number of shortcomings in the information provided so that it can be properly assessed.

At the time of issuing this report, I am yet to receive a response to this proposal.

The above amounts claimed by the various insolvency practitioners should be put into context by comparing the costs incurred by the Responsible Entity ("RE") prior to the appointment of Administrators on 19 March 2013.

The RE's previous costs, and as set out in my report dated 19 February 2014, averaged \$14M for the five years ended 30 June 2012. The costs of managing the Fund since the Administrators appointment include the premises, equipment, staff and consulting costs of approximately \$5M per annum (now reduced to less than \$3M) plus the insolvency practitioners costs. The costs will continue to reduce as the winding up progresses.

10. Management Accounts

I am currently finalising the management accounts for the year ended 30 June 2013 and the half year ended 31 December 2013. These accounts have been prepared in accordance with the relevant accounting standards and will shortly be posted on the website www.lmfimf.com.

Delays have been encountered in the preparation of the accounts due to poor record keeping, changes in LM accounting staff and no one person having sufficient knowledge to assist with queries on the previous audited accounts. For example, there are a lack of working papers to support the finalised figures and which has a knock on effect to the subsequent periods.

11. 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 14 below to advise us in this regard.

My next report to investors will be issued by 15 October 2014.

12. Receiver's Remuneration and Expenses

As previously advised, an application was made to court on 2 May 2014 for approval of my remuneration for the period from 8 August 2013 to 31 March 2014 in the amount of \$702,480.35 inclusive of GST.

This application and supporting documentation has been served on all members and the relevant documents can be found on the website www.lmfimf.com.

The matter was originally set down for a hearing on 26 May 2014. No members chose to be represented at the hearing however LMIM (by its liquidators, Mr Park and Ms Muller) as Responsible Entity for the Fund (referred to in this section simply as "FTI" for ease of reference) was represented, raised

objections to the remuneration and obtained an order from the court to have the matter adjourned with a two day hearing set down for 28 and 29 August 2014.

The court order made on 26 May 2014 included a requirement for FTI to file and serve any Affidavit, including expert evidence, upon which they intend to rely by 7 July 2014 identifying any costs subject to any objection and the basis of each objection.

In order to save costs in this respect, I put a proposal, via my solicitors, to FTI on 17 June 2014 asking them to review the material and set out any objections for my response. FTI did not agree to my proposal. FTI also failed to file and serve any further material by 7 July 2014.

Accordingly, in accordance with the terms of the court order, I instructed my solicitors to bring the matter before the court for directions on 31 July 2014. The court order from the directions hearing is currently being finalised however essentially covers the following:

- Costs were awarded against LMIM in respect of the application for directions;
- No expert evidence can now be submitted;
- The hearing has been set down on 28 August 2014 for two hours only;
- Any further material to be relied upon by FTI must be lodged by Monday 4 August 2014. FTI will need to seek leave from the judge at the hearing on 28 August 2014 if this material is to be relied on.

In addition to the remuneration for the above court application, I have incurred remuneration of \$463,296.50 plus outlays of \$11,217.63 plus GST for the period from 1 April 2014 to 31 July 2014 as detailed in the attached summary. I will apply to the Court for approval of that remuneration in due course and will advise investors accordingly.

13. LM Investor Victim Centre

One of the investors has brought to my attention that a website, <https://sites.google.com/site/lminvestorvictimcentre/home>, has been set up for LM investors with one goal "A Fair and Just Resolution for LM Investors".

I have no involvement in the website content and do not accept any responsibility for any of the views expressed therein. I simply bring it to your attention and you should take appropriate legal and/or financial advice before proceeding with any legal or other actions.

14. 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



BDO
GPO Box 457
Brisbane QLD 4001
Phone: +61 7 3237 5999
Fax: +61 7 3221 9227
Email: enquiries@lmfmif.com

Yours faithfully

A handwritten signature in blue ink, consisting of several overlapping loops and lines, extending from the left towards the right.

David Whyte
Receiver

Summary of professional fees by category of work for the period 1 April 2014 to 31 July 2014
LM First Mortgage Income Fund

Employee	Position	Rate	Totals		Task Area										
			hrs	\$	Assets		Creditors		Trade On		Investigations		Administration		
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	
Andrew Fielding	Partner	560	1.9	1,064.00										1.9	1,064.00
David Whyte	Partner	560	221.2	123,872.00	81.4	45,584.00	3.9	2,184.00	57.8	32,368.00	21.4	11,984.00		56.7	31,752.00
Eric Leeuwendal	Director	495	111.4	55,143.00			10.4	5,148.00			100.5	49,747.50		0.5	247.50
Eric Leeuwendal	Director	480	127.6	61,248.00	0.4	192.00	0.1	48.00	0.1	48.00	123.3	59,184.00		3.7	1,776.00
Margaux Beauchamp	Associate	470	4.2	1,974.00	4.2	1,974.00									
Margaux Beauchamp	Associate	460	26.0	11,960.00	26.0	11,960.00									
Eric Leeuwendal	Director	460	0.3	138.00	0.3	138.00									
John Somerville	Senior Manager	440	0.2	88.00			0.2	88.00							
John Somerville	Senior Manager	425	2.4	1,020.00			0.2	85.00	1.1	467.50				1.1	467.50
Charles Haines	Senior Manager	425	65.3	27,752.50	8.6	3,655.00	0.1	42.50			31.9	13,557.50		24.7	10,497.50
Joanne Garcia	Manager	400	145.2	58,080.00	9.1	3,640.00	14.3	5,720.00	109.5	43,800.00				12.3	4,920.00
Joanne Garcia	Manager	390	286.2	111,618.00	5.7	2,223.00	12.7	4,953.00	135.9	53,001.00	0.7	273.00		131.2	51,168.00
Michelle Matchett	Associate	370	5.0	1,850.00	5.0	1,850.00									
Ashleigh Simpson-Wade	Supervisor	360	0.2	72.00			0.2	72.00							
Michael Dharmaratne	Senior Accountant I	320	1.6	512.00			1.2	384.00			0.2	64.00		0.2	64.00
Michael Dharmaratne	Senior Accountant I	310	9.9	3,069.00	1.2	372.00	7.6	2,356.00			0.2	62.00		0.9	279.00
Daniel Tipman	Senior Accountant I	310	2.5	775.00			1.8	558.00						0.7	217.00
Dean Michalk	Senior Accountant II	270	0.1	27.00										0.1	27.00
Nicola Kennedy	Accountant I	225	0.2	45.00											
Nicola Kennedy	Accountant I	190	7.5	1,425.00	0.2	45.00								7.5	1,425.00
Rycko Taniran	Accountant I	175	2.5	437.50										2.5	437.50
Dermot O'Brien	Undergraduate	160	0.5	80.00	0.2	32.00								0.3	48.00
Nicole Jackson	Team Assistant	155	3.4	527.00										3.4	527.00
Dermot O'Brien	Undergraduate	155	3.2	496.00										3.2	496.00
Moira Hattingh	Team Assistant	80	0.2	16.00										0.2	16.00
Moira Hattingh	Team Assistant	75	0.1	7.50										0.1	7.50
TOTALS			1,028.8	463,296.50	142.3	71,665.00	52.7	21,638.50	304.4	129,684.50	278.2	134,872.00		251.2	105,436.50
			GST	46,329.65											
			TOTAL INC GST	509,626.15											
			AVERAGE HOURLY RATE	450	504	411	426	485	420						

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 April 2014 to 31 July 2014 LM First Mortgage Income Fund		Amount (\$ ex GST)
Expense Type		
Printing		384.90
Mileage		1,094.65
Postage		3,771.56
General		5,227.25
Search Fee		739.27
TOTAL		11,217.63
GST		1,121.76
TOTAL INC GST		12,339.39

TO WHOM IT MAY CONCERN

4 August 2014

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

I refer to my appointment as the Receiver of the Fund's assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution by Order of the Supreme Court of Queensland on 8 August 2013.

I provide an update on the estimated unit price of the fund as at 30 June 2014, calculated as follows:

	\$000's
Total Value of Fund Assets as at 30 June 2014 (net of land tax and rates)	86,063
Less Creditors and Other Payables	(14,748)
Total Net Value of Fund Assets	71,314
Total Number of Units as at 30 November 2013	478,479
Unit Price	0.15

Should you have any queries in respect of the above, please contact Michael Dharmaratne of my office on (07) 3237 5768.

Yours faithfully,



David Whyte
Receiver