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

27 September 2018

TO INVESTORS

Dear Member

LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288 (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED) ("THE FUND")

I attach the unaudited accounts for the Fund for the year ending 30 June 2018.

The accounts have been prepared by collating the records maintained by the Fund and receipts and payments and other records of FTI and McGrathNicol.

The accounts have been prepared in accordance with the Scheme Constitution, the recognition and measurement requirements of the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The accounts have been reviewed by the BDO audit team. However, their work does not constitute a full audit and therefore, the accounts are provided on an unaudited basis.

Should members require further information, please contact BDO on the details provided below.

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

Yours sincerely

David Whyte
Court Appointed Receiver

Disclaimer:

The 30 June 2108 financial statements were compiled by BDO Business Restructuring Pty Ltd however we did not audit those financial statements and, accordingly, express no opinion or other form of assurance on them.

LM FIRST MORTGAGE INCOME FUND
(RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)
ABN: 66 482 247 488

Report for the year ended 30 June 2018

Disclaimer

The 30 June 2018 financial statements were compiled by BDO Business Restructuring Pty Ltd but we did not audit those financial statements and, accordingly, express no opinion or other form of assurance on them.

LM FIRST MORTGAGE INCOME FUND
(RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)
ABN: 66 482 247 488

Financial Statements for the year ended 30 June 2018

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The Responsible Entity of LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed) is LM Investment Management Limited (ABN 68 077 208 461) (in Liquidation) (Receivers and Managers Appointed).

LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	30 June 2018 $	30 June 2017 $
Income			
Interest revenue - cash assets	12	1,508,456	1,506,468
Other Income	3 (a)	1,687,695	-
		3,196,151	**1,506,468**
Expenses			
Custodian fees & legal fees	9	(113,573)	86,709
Net Impairment losses on mortgage loans	6 (a)	614,117	120,542
Adjustment on foreign exchange accounts		(4,129)	3,548
Other expenses	4	4,625,299	4,384,080
Total expenses excluding distributions to unitholders		**5,121,714**	**4,594,879**
Net profit (loss) before distributions to unitholders		**(1,925,563)**	**(3,088,411)**
Distributions paid/payable to unitholders			-
Net profit (loss) after distributions to unitholders		**(1,925,563)**	**(3,088,411)**
Other comprehensive income			-
Net profit (loss) after distributions to unitholders		**(1,925,563)**	**(3,088,411)**
Income tax expense			-
Changes in net assets attributable to unitholders after income tax expense		**(1,925,563)**	**(3,088,411)**

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018	30 June 2017
ASSETS		**$**	**$**
Cash and cash equivalents	11	70,194,328	73,094,783
Receivables	10	469,030	351,024
Loans & Receivables	6	44,235	3,620,167
TOTAL ASSETS		**70,707,593**	**77,065,974**
LIABILITIES			
Payables	7	2,451,143	6,883,961
Distributions payable	3 (b)	1,372,036	1,372,036
Total liabilities excluding net assets attributable to unitholders		**3,823,179**	**8,255,997**
NET ASSETS		**66,884,414**	**68,809,977**
Represented by:			
Net assets attributable to unitholders	5	**66,884,414**	**68,809,977**
(calculated in accordance with IFRS)			

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 30 June 2018

	Note	30 June 2018 $	30 June 2017 $
TOTAL			
Opening balance		68,809,977	71,898,388
Units issued during the year	5	-	-
Units redeemed during the year	5	-	-
Units issued on reinvestment of distributions		-	-
Changes in net assets attributable to unitholders		(1,925,563)	(3,088,411)
Closing Balance		**66,884,414**	**68,809,977**

The Statement of Changes in Net Assets Attributable to Unitholders is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Note	30 June 2018	30 June 2017
		$	$
Cash flows from operating activities			
Interest and distributions received		1,508,456	1,506,468
Other operating expenses		(7,252,721)	(5,412,855)
GST and withholding tax (paid)/received		(118,005)	39,947
Net cash inflow/(outflow) from operating activities	11 (b)	**(5,862,270)**	**(3,866,440)**
Cash flows from investing activities			
Payments for secured mortgage loans	6 (b)	(117,090)	(248,453)
Receipts from settled mortgage loans	6 (b)	3,078,905	1,983,280
Net cash inflow/(outflow) from investing activities		**2,961,815**	**1,734,827**
Cash flows from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**(2,900,455)**	**(2,131,613)**
Cash and cash equivalents at beginning of year		73,094,783	75,226,396
Cash and cash equivalents at end of year	11 (a)	**70,194,328**	**73,094,783**

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements.

1. CORPORATE INFORMATION

During the period March 2013 to August 2013, a series of insolvency events occurred in respect of both the Fund and the Responsible Entity for the Fund, these are detailed in the table below:

Date	Appointment
19 March 2013	John Park and Ginette Muller of FTI Consulting appointed as Administrators of LM Investment Management Ltd ("LMIM") being the Responsible Entity for the Fund.
11 July 2013	Joseph Hayes and Anthony Connelly of McGrathNicol appointed as Receivers and Managers of LMIM as the Responsible Entity of LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed) ('LMFMIF', 'Scheme' or the 'Fund') by Deutsche Bank.
1 August 2013	John Park and Ginette Muller of FTI Consulting appointed as liquidators of LMIM.
8 August 2013	David Whyte of BDO appointed by the Court as Receiver of the assets of the Fund and as the person responsible for ensuring the Fund is wound up in accordance with its Constitution.

The Scheme is an Australian registered Scheme, constituted on 13 April 1999.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

(a) Basis of accounting

This financial report has been prepared in accordance with the Scheme Constitution, the recognition and measurement requirements of the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The Statement of financial position is presented in decreasing order of liquidity and does not distinguish between current and non-current items. The amount expected to be recovered or settled within twelve months in relation to the balances cannot be reliably determined.

The financial report is presented in Australian Dollars ($).

Statement of compliance

The financial statements have been prepared in accordance with the recognition and measurement requirements of the Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of accounting (Continued)

Status of investment in fund

During the 2009 year, the Responsible Entity closed the Scheme to new investors and suspended withdrawals subject to certain exceptions. Redemptions were suspended at this time, per the Constitution, as the Responsible Entity considered the suspension of the withdrawals to be in the best interest of the members of the Scheme.

The Scheme is now in the process of being formally wound up with redemptions and hardship provisions remaining suspended.

Liquidation Basis

Previous financial statements have been prepared on a going concern basis.

The financial statements for the periods ended 30 June 2013 onwards have not been prepared on a going concern basis due to the appointment of Administrators to the Responsible Entity for the Fund on 19 March 2013 and subsequently Liquidators on 1 August 2013 and the appointment of Receivers and Managers and Court Appointed Receiver and person responsible for ensuring it is wound up in accordance with its Constitution as detailed in Note 1. Accordingly, the financial statements for those periods have been prepared on a liquidation basis.

(b) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the reporting period. The impact of these standards and interpretations are not expected to have a material impact on the Scheme have not been included.

(c) Significant accounting judgements, estimates and assumptions

In the process of applying accounting policies, judgements and estimations have been made which have had an impact on the amounts recognised in the accounts. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Allowance for impairment loss on loans and receivables

The Scheme determines whether loans are impaired on an ongoing basis. Individually assessed provisions are raised where there is objective evidence of impairment, where the Scheme does not expect to receive all of the cash flows contractually due. Individually assessed provisions are made against individual facilities.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. For the purposes of the Statement of cash flows, cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Distribution income

Distribution income is recognised when the Scheme’s right to receive income is established.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Interest income

Interest income is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest ceases to be recognised when a loan is in default and the principal is impaired.

(g) Default management fees

Income from default management fees is recognised in line with the executed agreement with the borrower when an event of default occurs.

(h) Changes in the fair value of investments

Gains or losses on investments held for trading are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

(i) Fees, commissions and other expenses

Except where included in the effective interest calculation (for financial instruments carried at amortised cost), fees and commissions are recognised on an accrual basis. Audit and compliance fees are included with 'other expenses' and are recorded on an accrual basis.

(j) Financial instruments

Financial instruments in the scope of *AASB 139 Financial Instruments* are classified as either financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale investments or other financial liabilities as appropriate.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Scheme determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Scheme commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value including transaction costs directly attributable to the financial asset. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for credit losses when there is objective evidence that the Scheme will not be able to collect the loans and receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments

has been recognised in relation to the loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as an expense in the statement of comprehensive income.

A provision is made of loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The components of impaired assets are as follows:

“Loans in arrears” are loans and advances for which there is reasonable doubt that the Scheme will be able to collect all amounts of principal and interest in accordance with the terms of the agreement.

“Assets acquired through the enforcement of security” are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

When it is determined that interest is not recoverable on certain impaired loans, the interest is suspended and not brought into income. Should the analysis of the collectability subsequently change the interest will be brought into income at the time it is determined to be collectable.

(k) Payables

Payables are carried at amortised costs and represent liabilities for goods and services provided to the Scheme prior to the end of the financial year and half year that are unpaid and arise when the Scheme becomes obliged to make future payments in respect of the purchases of these goods and services.

The distribution amount payable to investors as at the reporting date is a carried forward balance from a period prior to the appointment of the Court Appointed Receiver. This balance is recognised separately on the statement of financial position as unitholders are presently entitled, subject to confirmation, to the distributable income as at 30 June 2014 under the Scheme’s constitution. Further investigation into the distributions payable is currently being undertaken.

(l) Increase/decrease in net assets attributable to unitholders

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses accrued for which are not yet deductable, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax. Excess and undistributed income is also transferred directly to net assets attributable to unitholders.

(m) Distributions

The Trustees for the LM Managed Performance Fund previously put both the Receivers and Managers and the Court Appointed Receiver on notice of a potential claim against the Fund.

The secured creditor was not in a position to release its security due to the potential claim against the Fund. This matter has now been resolved and the Receivers and Managers have advised they are finalising their appointment. Once the secured creditor’s Receivers have retired and the funds are 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 auditor claim and Bellpac litigation. I am also required to seek the directions of the Court before proceeding with the next distribution.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties such as audit fees, custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 55%.

Investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in the statement of cash flows on a gross basis.

The GST component of cash flows arising from investing and financing activities recoverable or payable to the ATO is classified as an operating cash flow.

(o) Applications and redemptions

Applications received for units in the Scheme are recorded when units are issued in the Scheme. Redemptions from the Scheme are recorded when the cancellation of units redeemed occurs. Unit redemption prices are determined by reference to the net assets of the Scheme divided by the number of units on issue.

Applications received in foreign currency denominations are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Foreign currency denominated unitholder funds are translated into the Schemes functional currency at balance date, using the spot rate prevailing at that date. Gains and losses arising from foreign exchange translation are recorded in the Statement of Comprehensive Income in the period in which they arise.

(p) Taxation

Under current legislation, the Scheme is not subject to income tax provided the distributable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(r) Foreign currency translations

The Scheme's transactions in foreign currencies previously comprised applications and withdrawals of foreign currency unitholder funds and payment of distributions. Transactions in foreign currencies were initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liability denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date, and exchange rate gains and losses are recognised in the statement of comprehensive income.

In relation to the total investor units, a discrepancy between the units recorded in the investor register and the units recorded in the audited and management accounts for the 2012 financial year has been identified. Investigations indicate that the discrepancy relates to the Fund's migration to a new financial database in 2010 whereby the units of investors who subscribed in a foreign currency were incorrectly recorded in the foreign currency equivalent amount, and not in the AUD equivalent amount in accordance with the PDS and Constitution. An application will be made to the Court with a view to rectifying the register.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments not traded in an active market is determined using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

(t) Estimated net asset amount per unit available to investors

The estimated amount of net assets available to investors are subject to the uncertainties indicated in this financial report.

The net assets of the fund and number of units on issue at the end of each of the periods is detailed in the table below:

	30 June 2018	30 June 2017
Estimated net amount of assets available to investors as at the period end ($)	66,884,414	68,809,977
Total investor units (# of units) *	478,100,386	478,100,386
Estimated net asset amount per unit available to investors as at the period end (cents in the dollar)**	**0.140**	**0.144**

* Unit #'s

In previous financial statements prepared by David Whyte, unrealised foreign exchange transactions relating to the units denominated in foreign currencies were included in the accounts as this practice was undertaken in the audited financial accounts prior to year ended 30 June 2013. The results of these transactions were notionally recorded in the financial accounts as an adjustment to the total number of investor units in accordance with accounting standards. Given the discrepancy identified as detailed in Note 2(r) above in regard to the units of investors who subscribed in a foreign currency, having obtained legal advice, Mr Whyte has decided that no further notional adjustments to the unit numbers ought to be made in the financial accounts, until the incorrect recording of units of investors who subscribed in a foreign currency has been resolved and directions from the Court have been obtained. Accordingly, the total investor unit numbers has been notionally restated above as at the balance at 30 June 2016.

** Estimated return to investors

The estimated net asset amount per unit available to investors as set out above is subject to the resolution of a number of ongoing proceedings, including a claim against the Feeder Funds which was served on or about 7 August 2017. Given that the claim is likely to be defended, the actual net asset amount per unit available to investors is currently uncertain and an update will be provided in due course. Please refer to Note 14 below for further details regarding the claim.

The Feeder Funds are the LM Currency Protected Australian Income Fund (CPAIF), the LM Institutional Currency Protected Australian Income Fund (ICPAIF) and the LM Wholesale First Mortgage Income Fund (WMIF). The Feeder Funds are Class B investors and currently comprise approximately 48% of the total unitholding in the FMIF.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The claim is for declarations that the FMIF is entitled to withhold from distributions or payments otherwise payable to the Feeder Funds an amount in excess of $55 million (for redemptions paid to the Feeder Funds when the FMIF suspended redemptions to all other investors, apart from genuine approved hardship cases), as adjusted for the amount which the Feeder Funds would otherwise have been entitled as pleaded in the statement of claim. The claim seeks a declaration cancelling approximately 35 million units issued to the Feeder Funds (which were a consequence of re-investment of distributions made to the Feeder Funds) which were issued after the FMIF suspended distributions to other investors.

If the Court grants the relief sought against the Feeder Funds and putting aside any other recoveries for the benefit of investors:

- the CPAIF and ICPAIF are not likely to receive any distribution in the winding up of the FMIF;
- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF;
- the FMIF can use the funds which otherwise would have been paid to the Feeder Funds for distributions to investors generally instead and, as a result, the return to other investors (Class A and Class C) will substantially increase.

3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS

(a) Other Income

The other income amount of $1,687,695 relates to adjustments to the Fund's accrued expenses that were reported and expensed in prior periods during the Receivership. This amount is predominantly made up of amounts accrued for FTI's claimed remuneration and expenses up to 30 September 2015 which are no longer payable due to the recent decision of the Court and provision for reimbursement of operational expenses by FTI not previously brought to account. See Note 14 litigation for more information.

(b) Distributions Payable

The distributions payable balance of $1,372,036 relates to distributions that appear to have been declared prior to the date of the Court Receiver's appointment which were not paid, or have not cleared or were returned unclaimed. These liabilities have not been verified and Court approval may be required before any payment is made.

Once the secured creditor's Receivers have retired and the funds are 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 auditor claim and Bellpac litigation.

I am also required to seek the directions of the Court before proceeding with the next distribution.

There have been no distributions to unitholders for the year ended 30 June 2018 or for years ending 30 June 2017, 30 June 2016 and 30 June 2015.

4. OTHER EXPENSES

Other Expenses	30 June 2018 $	30 June 2017 $
Receivers and Managers' fees and outlays (McGrathNicol)	239,310	386,228
Court Appointed Receiver's fees & outlays (BDO) *	2,239,050	1,960,705
Legal Fees	1,876,102	1,791,427
Other expenses	270,837	245,720
Total	**4,625,299**	**4,384,080**

*Denotes expenses which are subject to approval by the court.

Court Appointed Receiver's fees & outlays (BDO)

The Court Appointed Receiver's fees & outlays are represented by the following amounts:	30 June 2018 $	30 June 2017 $
Court Appointed Receiver's investigations, litigation and other non-operating costs	1,007,573	678,368
Operating Costs of the Fund	1,231,477	1,282,337
Total	**2,239,050**	**1,960,705**

The Court Appointed Receiver's investigations and other non-operating costs include time costs in relation to the claim against the former auditors of the Fund, and other litigation matters which include claims against the MPF, LMIM and its directors and the claim against the Feeder Funds.

5. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Movements in the net assets attributable to unitholders during the year were as follows:

Net assets attributable to unitholders	30 June 2018	30 June 2017
	$	$
Class A		
Opening balance	245,679,110	245,679,110
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	-
Closing balance	**245,679,110**	**245,679,110**
Class B		
Opening balance	220,196,311	220,196,311
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	-
Closing balance	**220,196,311**	**220,196,311**
Class C		
Opening balance	12,224,964	12,224,964
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	-
Foreign exchange (gain)/loss on investor funds	-	-
Closing balance	**12,224,964**	**12,224,964**
Cumulative movement in changes in net assets	(411,215,971)	(409,290,408)
Net assets attributable to unitholders	**66,884,414**	**68,809,977**

Class A

Class A consists of unitholders who are entitled to receive the declared distribution rate. There are a number of subclasses attached to class A. These consist of the following products with varying terms:

1) Flexi Account investment option
2) Fixed Term investment option
3) LM Savings Plan investment option

Class B

Class B consists of related Scheme unitholders.

5. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (cont)

Class C

Class C consists of unitholders who have invested in foreign currencies and are entitled to receive the declared distribution rate.

Subject to the comments relating to the status of the Scheme in note 2(t) above, unitholders are entitled to one vote per unit at unitholders' meetings and as the Scheme is being wound up, unitholders rank after creditors and are equally entitled to the proceeds of the winding up procedure.

6. LOANS AND RECEIVABLES

	30 June 2018 $	30 June 2017 $
Secured mortgage loans	6,102,290	72,696,775
Provision for impairment	(6,058,055)	(69,076,608)
	44,235	**3,620,167**

Loans and receivables are initially measured at the fair value including transaction costs and subsequently measured at amortised cost after initial recognition. Loans and Receivables are assessed for impairment at each reporting date. Where impairment indicators exist, the recoverable amount of the loan will be determined and compared to its carrying amount to determine whether any impairment losses exists. Impairment losses are recognised when the recoverable amount under the individual loan is less than the carrying amount of that loan.

Material uncertainty regarding recoverability of Loans and Receivables

For loans in default, an impairment indicator arises which requires the recoverable amount of that loan to be determined. The recoverable amount for each individual loan in default has been determined from independent valuations and/or the assets forming the security for the loans. The valuations are based on current market conditions and provide for appropriate exposure to the market and an orderly realisation of assets forming the security for the loans.

In determining the recoverable amounts, there are uncertainties involved in assessing the market values and the ability to realise those market values, particularly where the market is not active. Consequently, it is likely that there may be differences between the amounts at which the Loans and Receivables are recorded at in the financial statements for the period ended 30 June 2018, and the amounts that are actually realised. Such differences may be material. Accordingly, there is a material uncertainty regarding recoverability of Loans and Receivables.

The balance of $44,235 represents cash available in the controllerships' bank accounts as at 30 June 2018. These funds have since been distributed to the Fund's bank account as loan repayments.

(a) Provisions for impairment

The impairment loss expense relating to loans and receivables comprises:

	30 June 2018	30 June 2017
	$	$
Opening balance	69,076,608	68,866,088
Impairment losses provided for (recoveries) during the period	614,117	120,542
Impairment losses realised during the period	(63,632,670)	89,978
Closing balance	6,058,055	69,076,608
Total provision for impairment	**(6,058,055)**	**69,076,608**

(b) Movement in default loans

	30 June 2018	30 June 2017
	$	$
Gross default loans opening balance	72,696,775	74,341,624
New and increased default loans	117,090	248,453
Balances written off	(63,632,670)	89,978
Repaid	(3,078,905)	(1,983,280)
Gross default loans closing balance	6,102,290	72,696,775
Specific provision	(6,058,055)	(69,076,608)
Net default loans	**44,235**	**3,620,167**

7. PAYABLES

Payables are carried at cost and represent liabilities for goods and services provided to the Fund prior to the period end but have not yet been paid.

	30 June 2018	30 June 2017
	$	$
Accounts payable	2,451,143	6,883,961

Approximately $918,458 of the accounts payable balance relates to FTI's remuneration and expenses claimed from the Fund. See Note 14 FTI litigation for more information.

8. INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings relates to facilities with external providers. In July 2010, the RE entered into a new facility with an external financier, Deutsche Bank. Deutsche Bank holds a fixed and floating charge over the assets of the Fund.

As indicated in Note 1, McGrathNicol were appointed as Receivers and Managers of the Fund by Deutsche Bank as a result of a default of the finance facility by the Fund for this secured loan.

There has been a progressive sell down of the assets of the Fund which enabled $14.1M of the loan to be repaid during the 2013 financial year and $21.5M between July and December 2013. The facility was repaid in full in January 2014.

9. RELATED PARTIES

	30 June 2018 $	30 June 2017 $
Custodian		
Custodian's fees paid by the Scheme	32,274	86,709
Custodian's legal fees (refund)	(145,847)	-
Total	**(113,573)**	**86,709**

Custodian

The Custodian of the Fund is The Trust Company (PTAL) Ltd. The Custodian's fees in the year ended 30 June 2016 included a claim for legal fees payable under the custodian agreement. The legal fees were incurred by the custodian defending an action brought by a mortgagor of the Scheme. This action was subsequently discontinued and PTAL was awarded costs. PTAL received a payment of $150,000 from security for costs put up by the plaintiffs. As PTAL's costs were claimed and paid by the Fund under the custodian agreement, PTAL forwarded the security for costs monies to the Fund.

10. RECEIVABLES

	30 June 2018 $	30 June 2017 $
Term deposit interest receivable	131,378	249,315
GST receivable	337,652	101,709
	469,030	**351,024**

11. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Financial Position, the cash and cash equivalents comprise of cash at bank and in hand. The cash at bank earns interest at floating rates based on the daily bank deposit rates, however, the majority of the cash balance is invested on term deposit with a bank. The cash at bank figure includes monies held in foreign exchange accounts.

	30 June 2018	30 June 2017
	$	$
Cash at bank	70,194,328	73,094,783

(b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities

	30 June 2018	30 June 2017
	$	$
Change in net assets attributable to unitholders	(1,925,563)	(3,088,411)
Adjustments for:		
Non-cash impairment expense	614,117	120,542
Non-cash accrued expense reduction	(1,687,695)	-
(Gains)/loss on foreign exchange contracts	(4,129)	3,548
(increase)/decrease in other receivables	(118,005)	39,947
Increase/(decrease) in payables	(2,740,995)	(942,066)
Net cash flows from/(used in) operating activities	**(5,862,270)**	**(3,866,440)**

12. INTEREST REVENUE

Interest revenue relates to interest received on funds held in bank accounts.

Interest on loans is suspended and not brought to account when it is considered that the amounts are not ultimately recoverable from the remaining security for the loans.

13. CONTINGENT LIABILITIES

Claims by KordaMentha as Trustee of the LM Performance Fund

Assigned Loans Claim

In August 2014, KordaMentha Pty Ltd and Calibre Capital Pty Ltd as trustees of the MPF commenced two proceedings against LMIM alleging that the entry into Deeds of Assignment by LMIM, pursuant to which PTAL, as custodian of the FMIF assigned its right, title and interest in the securities that it held for two FMIF loans, to LMIM as trustee of the MPF, in exchange for payment of a Settlement Sum, and the alleged payment of the Settlement Sum by LMIM as trustee of the MPF, breached duties owed by LMIM to members of the MPF. Calibre Capital Pty Ltd has since resigned as trustee of the MPF, and has been removed as a party to the proceedings.

On the application of David Whyte, as Receiver of the property of FMIF, orders were made on 17 December 2015 adding him as second defendant in each proceeding. The plaintiff (after various amendments to its case) sought the following relief in each proceeding:

- Equitable compensation against LMIM, interest and costs
- Declarations that:
  - LMIM is entitled to be indemnified out of FMIF assets in respect of its liability to the plaintiff in the proceeding;
  - LMIM has a lien or charge over FMIF assets in respect of its liability to the plaintiff in the proceeding;
  - the plaintiff is entitled to be subrogated to the rights of LMIM in respect of the assets of FMIF.

The total amount of the claims made against assets of the FMIF is about $24.1 million plus interest and costs.

At the review hearing on 16 December 2016, the proceedings were adjourned to a date to be fixed.

Both proceedings were discontinued by the MPF in June 2018.

AIIS Loan Claim

On 16 December 2015, KordaMentha as trustee of the MPF (MPF Trustee), commenced a proceeding against LMIM. The MPF Trustee alleged in the proceeding that:

- PTAL, as custodian of the FMIF, and LMIM as trustee of the MPF, both made loans to a borrower by the name of Australian International Investment Services Pty Ltd (AIIS);
- PTAL as custodian of the FMIF was the first registered mortgagee, and LMIM as trustee of the MPF was the second registered mortgagee;
- LMIM as trustee of the MPF approved various increases to the amount of the facility, from time to time, in breach of duty; and
- LMIM as trustee of the MPF made various advances that were used to service interest on the loan made by PTAL as custodian of the FMIF to AIIS, in breach of duty, and LMIM as RE of the FMIF received such payments with knowledge that they were made in breach of duty.

The MPF Trustee claimed the following relief in the proceeding:

- approximately $16.82 million equitable compensation against LMIM;
- a declaration that LMIM as RE of the FMIF holds on constructive trust the amount of approximately $3.9 million (being the amount of the payments allegedly made by LMIM as trustee of the MPF to service interest on the FMIF facility);
- a declaration that the MPF Trustee is entitled to be subrogated to the rights of LMIM, and indemnified out of assets of the FMIF in respect of, or has a lien or charge over the assets and undertakings of the FMIF to secure, the amount of approximately $3.9 million;
- interest and costs.

The proceedings were discontinued by the MPF in June 2018.

14. LITIGATION MATTERS

Claim against the former auditors

A public examination (PE) of the former auditors, certain directors, former directors (Directors) and staff of LM Investment Management Limited (In Liquidation) was conducted over a period of 9 days in June 2015 and a further 9 days in October 2015.

Following the PEs, a further amended statement of claim was filed by David Whyte in the Supreme Court of Queensland and served on the former auditors of the Fund on 14 April 2016.

The former auditors' solicitors lodged and served on David Whyte an application and supporting affidavit on 27 April 2016 seeking to strike-out certain parts of the statement of claim. The hearing of the strike out application was adjourned to a date to be fixed by consent to enable appropriate directions to be made for the parties to exchange and file any further affidavit material and written submissions in advance of the hearing of the strike out application.

On 30 May 2016, David Whyte filed an application to place the proceedings on the Court's commercial list. This application was also adjourned to a date to be fixed.

On 2 August 2016, David Whyte filed a second further amended statement of claim. The parties filed submissions and further affidavit evidence as required by the orders and at the hearing of the strike out application and the commercial list application on 15 December 2016, the Court granted the application to place the proceedings on the commercial list and reserved its decision on the strike out application.

The reserved decision from the hearing of the strike out application was handed down on 8 May 2017 and the decision was not appealed. In that decision, the Court declined to strike out all of the parts of the claim that the former auditors sought to strike out. However, it did make orders striking out certain causes of action and orders were made that the statement of claim be amended to delete those causes of action.

In accordance with the Court's judgment, the statement of claim has been amended and was filed on 20 November 2017 and served on the former auditors. Details of the loss has been included in the amended statement of claim which has been calculated (at its highest) in excess of $200 million.

The amended statement of claim filed on 20 November 2017 included a claim for compensation from the former auditors under section 1325 of the Corporations Act. Steps have been taken to amend the Claim to make specific reference to this claim for compensation under section 1325. Leave of the Court is required for such amendment, necessitating an application to the Court.

On 29 May 2018, the Court made Orders for the filing of the proposed application to amend the Claim, as well as for the auditors to make a request for further and better particulars of the further amended statement of claim.

A request for particulars was received on 19 June 2018. A further Order of the Court dated 24 July 2018 requires the response to this request to be filed and served by 19 October 2018.

Two further amendments to the statement of claim were filed on 5 July 2018 and 7 August 2018. Particulars of loss and damage were filed and served on the auditors on 23 July 2018.

The Application for leave to amend the Claim was filed on 10 August 2018. The Court has listed the hearing of the application for 27 September 2018.

Following the hearing on 27 September 2018, the next steps are to provide the particulars requested and obtain Orders programming the filing of the auditors' defence and the Receiver's reply to that defence.

Wollongong Coal Ltd (WCL) – Convertible Bonds

There are $8 million in convertible bonds in Wollongong Coal Limited (WCL) which was the subject of a successful application to the Federal Court acknowledging that Bellpac Pty Ltd (In Liquidation) (Bellpac) (under the control of its liquidators) is the true owner.

The defendants appealed the decision, which was unsuccessful, however, on 12 July 2016, the defendants made application for special leave to the High Court of Australia to appeal the decision of the Federal Court. On 10 November 2016, the High Court refused to grant special leave to the defendants, and dismissed their application with costs.

In January 2016, the Bellpac Liquidator applied for the conversion of the bonds to shares. Under the terms of the Bonds, WCL is required to issue the shares within 7 days after the end of January 2016 (Due Date) which it failed to do. Instead WCL issued part of the shares in early February 2016 and the balance of the shares after resolution of its members, in May 2016.

As WCL did not issue the shares as required under the terms of the Bonds, the Bellpac Liquidator brought proceedings against WCL seeking orders requiring WCL to perform its obligation to redeem the Bonds by

- Redeeming all of the Bonds which were not converted by the Due Date; and
- Pay to the Liquidator $8M or such other amount being the nominal principal value of the unconverted Bonds (those issued in May 2016), plus interest.

The proceedings have been adjourned pending completion of the terms of a heads of agreement with WCL pursuant to which Bellpac will receive cash of $6.3 million in exchange for the transfer of the shares to WCL or alternatively cancellation of the shares.

The remaining condition precedent (Sunset Date) to the settlement with WCL has been extended several times from the original condition precedent fulfilment date and the Liquidator was successful in negotiating as part of the agreement to extend the Sunset Date that WCL pay interest at 3% p.a. from 2 October 2017 until settlement. The last agreed extension granted was to 18 October 2018.

Proceedings against the MPF, LMIM and the Directors of LMIM

On 17 December 2014, David Whyte filed a claim and statement of claim in the Supreme Court of Queensland, against a number of parties, including the MPF Trustee, alleging the FMIF suffered loss as a result of a decision to pay an amount to the MPF in 2011 on settlement of litigation between Bellpac and Gujarat NRE Minerals Ltd (now called Wollongong Coal Limited). The claim is for $15.5M plus interest.

The proceedings have progressed to completion of discovery stage for the plaintiff and certain defendants. The defendants who are participating in the proceedings have all filed defences (and in some instances, amended defences) to which the plaintiff has filed replies.

A draft trial bundle of documents was served on the defendants on 1 June 2018. The proceedings were listed for review on 16 August 2018 following which a timetable was implemented to progress the proceedings to a trial in March/April 2019. Specifically, and amongst other things, it was ordered that the plaintiff serve an amended draft trial bundle by 14 September 2018. This has been completed and the defendants' response is due by 5 October 2018. Following the finalisation of the contents of the trial bundle, affidavit evidence is to be exchanged by the parties along a timeline from November 2018 to February 2019 in advance of trial.

FTI litigation

The RE for the Fund is LM Investment Management Ltd (in Liquidation) ("LMIM"). On 8 April 2015, the Liquidators of LMIM ("FTI") filed an application (which was subsequently amended on 20 July 2015) in the Supreme Court of Queensland, for directions in relation to their ongoing role, and the extent of their powers and responsibilities to undertake certain duties, for, and on behalf of, the FMIF. The application was heard before the Court on 20 July 2015, and orders were made on 17 December 2015.

Remuneration claim

On 16 December 2015, FTI filed a Further Amended Originating Application ("FAOA") seeking a determination of their remuneration as administrators, and liquidators, of LMIM. The FAOA sought payment in the amount of $3,098,251.83 plus GST (for the period from the date of their appointment as administrators on 19 March 2013 to 30 September 2015) from the assets of the Fund. The matter was heard by the Court on 22 February and 14 March 2016 and the decision was reserved.

The Court handed down its reasons for judgment on 17 October 2017 in relation to FTI's application for approval of their remuneration and payment from assets of the Fund. Orders reflecting His Honour's reasons for judgment were made on 22 November 2017 to the effect that FTI be paid a total of $1,827,205.23 "(plus GST)" for remuneration and out of pocket expenses from property of the Fund. The approved amount of $1,827,205.23 was paid to FTI in December 2017.

As to the costs of the proceedings, the court orders provide that certain specified proportions of FTI's costs on an indemnity basis are to be paid from the property of the Fund and 3 other LM funds.

On 12 June 2018, FTI advised David Whyte of further claims against the Fund for remuneration and disbursements outstanding from 1 October 2015 up to 30 April 2018 totalling $363,929.47 exclusive of GST.

On 17 July 2018, Mr Park of FTI, who is now the sole Liquidator of LMIM, filed an application in the Court seeking payment of remuneration of approximately $743,889.89 inclusive of GST from property of the FMIF, relating to various periods between 19 March 2013 and 30 June 2018. The application was heard on 6 September 2018 and adjourned to 3 October 2018.

Mr Park's claimed fees and expenses have been included in the Fund's Payables (as referred to in Note 7 above), though this amount is not admitted and is subject to the outcome of FTI's application to the Court.

Indemnity claims

In accordance with the Orders made by the Court on 17 December 2015, FTI submitted two indemnity claims to David Whyte, seeking payment of the sums of $241,453.54 and $375,499.78 respectively, from the assets of the Fund.

The first claim (of $241,453.54) was made with respect to the legal costs incurred by LMIM in relation to the appeal of the decision of Dalton J appointing David Whyte as receiver of the assets of the Fund, and the person responsible for ensuring the Fund is wound up in accordance with its Constitution. This claim was rejected by David Whyte.

As to the second claim, David Whyte accepted, and paid, $84,954.41, rejected $169,243.26 and deferred consideration of $5,473.59 (pending the outcome of the judgment to be handed down in respect of the FAOA for FTI's remuneration). The balance of the second claim was withdrawn by FTI.

On 20 May 2016, FTI filed an application in the Supreme Court of Queensland, seeking declarations that the claims for indemnity rejected by David Whyte are properly payable to LMIM from the Fund ("Indemnity Application"), and payment thereof. On 16 February 2017, Jackson J made directions as to the steps to progress the Indemnity Application. The Indemnity Application was heard by the Court on 8 and 9 May 2017 and the Court reserved its decision. Shortly before the hearing, the Indemnity Application was amended, to incorporate a claim by FTI for direct indemnity in favour of FTI (rather than in favour of LMIM) from the property of the FMIF.

David Whyte obtained judicial advice (by Order of Burns J) to the effect that he is justified in raising the clear accounts rule in opposition to the Indemnity Application, in relation to certain identified claims.

The Court handed down its reasons for judgment on 17 October 2017, and Orders were made on 22 November 2017 to give effect to the Judgment. Jackson J relevantly found that the legal costs of the appeal in 8895 of 2013 of $263,127.13 and costs of assessment of those costs in the sum of $9,068.68 are not payable out of the property of the FMIF, that the Liquidators are entitled to direct indemnity out of the FMIF for various amounts totalling $44,158, and that the clear accounts rule operates to suspend LMIM's claimed right to payment from the assets of the FMIF until the resolution of the claim made in the proceeding 11560/16 (the LMIM Claim). The Court also ordered to the effect that 90% of FTI's costs of the Indemnity Application be paid out of the assets of the FMIF on the indemnity basis, to be assessed if not agreed.

It is anticipated that there are likely to be further claims by Mr Park for indemnity for expenses from property of the FMIF.

LMIM Claim

A statement of claim filed in November 2016 to preserve claims in relation to certain transactions and avoid possible expiry of statutory limitation periods has been amended and has now been served on LMIM. The claims are for various alleged breaches of trust in relation to certain transactions including pre-paid management fees and loan management fees paid to LMIM or its service entity LM Administration Pty Ltd. On 25 July 2018, the Court granted leave to proceed with this claim and ordered that the claim be stayed until further order.

Claim against Feeder Funds (Class B unitholders)

The statement of claim which was filed against the Feeder Funds in December 2016 to preserve certain claims has now been amended and has now been formally served on the parties representing the Feeder Funds. The Feeder Funds are the LM Currency Protected Australian Income Fund (CPAIF), the LM Institutional Currency Protected Australian Income Fund (ICPAIF) and the LM Wholesale First Mortgage Income Fund (WMIF). The claim concerns approximately $55 million of redemptions paid to the Feeder Funds when the FMIF had suspended redemptions to other investors (apart from genuine approved hardship cases) and approximately $19.5M of income distributions made to the Feeder Funds when income distributions to other investors were suspended (and the reinvestment of these distributions). The relief sought in the claim includes declarations to withhold from distributions or payments otherwise payable from the FMIF to:

- CPAIF in the sum of $40,583,109 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the CPAIF would otherwise have been entitled as referred to in the statement of claim;
- ICPAIF in the sum of $5,044,118.30 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the CPAIF would otherwise have been entitled as referred to in the statement of claim;
- WMIF in the sum of $9,432,090.76 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the WMIF would otherwise have been entitled as referred to in the statement of claim.

If the claim is successful, it will impact on the return to the Feeder Funds from the winding up of the FMIF and, in the case of the CPAIF and ICPAIF, it is expected that the claim will exhaust any estimated return (based on the estimated unit value as calculated herein) to those funds (such that they will not be entitled to any distribution from the FMIF). In the case of the WMIF, the claim will substantially reduce its entitlement to any distribution.

Mr Whyte made an application under Section 59 of the Trusts Act to seek directions in relation to how the differing interests of LMIM are to be represented in the proceedings and an application under Section 500 of the Corporations Act to seek leave to proceed against LMIM (the Applications). The hearing of the Applications, which was originally listed on 8 December 2017, was adjourned to a date to be fixed on 7 December 2017. The Applications together with an application to have the matter listed on the Commercial List (Commercial List Application) were set down for hearing on 29 May 2018.

On 29 May 2018 the matter was heard before his Honour Justice Jackson who stood the matter down in order for the parties to liaise in relation to the final terms of an order providing for further directions. The further directions included referring the matter to mediation. Following the provision of an agreed order to his Honour Justice Jackson, the parties were asked by the Court to reappear before his Honour on 13 June 2018.

On 13 June 2018 orders were made granting the orders sought in the Applications and the Commercial List Application including that Mr Whyte represent the interests of the LM First Mortgage Income Fund in the proceedings and that the ICPAIF and the CPAIF be represented by Mr Said Jahani of Grant Thornton. The interests of LMIM are to be represented by Mr John Park of FTI Consulting. Further, it was ordered that mediation between the parties take place prior to 28 September 2018.

Following discussions between the parties, it was determined that the parties did not have mutual availability prior to 28 September 2018 to attend mediation. Accordingly, amended orders were made by his Honour Justice Jackson on 4 September 2018 providing for a two day mediation to take place on 5 and 6 November 2018.