

19 April 2016

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 half year ended 31 December 2015.

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.

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Yours sincerely



David Whyte

Court Appointed Receiver

Disclaimer:

The 31 December 2015 financial statements were compiled by BDO Business Recovery & Insolvency (QLD) 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 half-year ended 31 December 2015

Disclaimer

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

ABN: 66 482 247 488

Financial Statements for the half-year ended 31 December 2015

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

For the half-year ended 31 December 2015

	Note	31 December 2015 \$	31 December 2014 \$
Income			
Fee revenue - mortgage loans		-	4,050
Interest revenue - cash assets		610,889	200,346
Other Income		1,704	-
Realised gain on foreign exchange contracts		-	106,869
		<u>612,593</u>	<u>311,265</u>
Expenses			
Custodian fees	9	84,052	29,805
Net Impairment losses on mortgage loans	6	4,060,120	(18,320,812)
Unrealised foreign exchange losses on investor fund		1,275,678	263,794
Realised loss on foreign exchange contracts		26,252	75,539
Other expenses	4	4,609,912	4,958,035
Total expenses excluding distributions to unitholders		<u>10,056,014</u>	<u>(12,993,639)</u>
Net profit (loss) before distributions to unitholders		(9,443,421)	13,034,904
Distributions paid/payable to unitholders	3	-	-
Net profit (loss) after distributions to unitholders		<u>(9,443,421)</u>	<u>13,034,904</u>
Other comprehensive income			
Net profit (loss) after distributions to unitholders		(9,443,421)	13,034,904
Income tax expense			
Changes in net assets attributable to unitholders after income tax expense		<u>(9,443,421)</u>	<u>13,034,904</u>

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 31 December 2015

	Note	31 December 2015 \$	30 June 2015 \$
ASSETS			
Cash and cash equivalents	11	55,100,560	41,863,342
Receivables	10	349,228	782,658
Loans & Receivables	6	23,891,424	43,333,916
TOTAL ASSETS		<u>79,341,212</u>	<u>85,979,916</u>
LIABILITIES			
Payables	7	8,958,218	7,429,179
Distributions payable		<u>1,372,036</u>	<u>1,372,036</u>
Total liabilities excluding net assets attributable to unitholders		<u>10,330,254</u>	<u>8,801,215</u>
NET ASSETS		<u>69,010,958</u>	<u>77,178,701</u>
Represented by:			
Net assets attributable to unitholders	5	<u>69,010,958</u>	<u>77,178,701</u>
(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 half-year ended 31 December 2015

	Note	31 December 2015 \$	30 June 2015 \$
TOTAL			
Opening balance		77,178,701	59,366,610
Units issued during the year	5	-	980
Units redeemed during the year	5	-	-
Units issued on reinvestment of distributions		-	-
Changes in net assets attributable to unitholders		(9,443,421)	17,547,317
Foreign exchange (gain)/loss on investor funds	5	1,275,678	263,794
Closing Balance		69,010,958	77,178,701

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 half-year ended 31 December 2015

	Note	31 December 2015	31 December 2014
		\$	\$
Cash flows from operating activities			
Interest and distributions received		610,889	204,396
Other operating expenses		(3,191,177)	(3,785,478)
Other income received		1,704	-
GST and withholding tax (paid)/received		433,430	70,900
Net cash inflow/(outflow) from operating activities	11(b)	<u>(2,145,154)</u>	<u>(3,510,182)</u>
Cash flows from investing activities			
Payments for secured mortgage loans	6(b)	(7,093,059)	(3,889,961)
Receipts from settled mortgage loans	6 (b)	22,475,431	16,661,295
Net cash inflow/(outflow) from investing activities		<u>15,382,372</u>	<u>12,771,334</u>
Cash flows from financing activities			
Receipts from the issue of units		-	980
Payment for redemption of units		-	(1,090)
Net cash inflow/(outflow) from financing activities		<u>-</u>	<u>(110)</u>
Net increase/(decrease) in cash and cash equivalents		13,237,218	9,261,042
Cash and cash equivalents at beginning of year		41,863,342	7,741,190
Cash and cash equivalents at end of year	11 (a)	<u>55,100,560</u>	<u>17,002,232</u>

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

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

Notes to the financial statements for the half-year ended 31 December 2015

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.

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

Notes to the financial statements for the half-year ended 31 December 2015

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 that 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.

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

Notes to the financial statements for the half-year ended 31 December 2015

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 ie. 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

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

Notes to the financial statements for the half-year ended 31 December 2015

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

(j) Financial instruments (Continued)

for impairment has been recognised in relation to the loan, writeoffs for bad debts are made against the provision. If no provision for impairment has previously been recognised, writeoffs 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 deductible, 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 have put both the Receivers and Managers and the Court Appointed Receiver on notice of a potential claim against the Fund. In addition, the Receivers and Managers appointed to the Bellpac matter have put the Court Appointed Receiver on notice not to distribute funds until the proceedings are resolved.

The secured creditor is not in a position to release its security due to the potential claim against the Fund. Until the matters detailed above are resolved and funds released to the Court Appointed Receiver, distributions to investors cannot commence.

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

Notes to the financial statements for the half-year ended 31 December 2015

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 75%.

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 cashflows 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 (ie. 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 comprise applications and withdrawals of foreign currency unitholder funds and payment of distributions. Transactions in foreign currencies are 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 and retranslated at the rate of exchange prevailing at the balance sheet date, and exchange rate gains and losses 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. Legal advice has been sought in relation to addressing this issue and a further update will be provided in due course.

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

Notes to the financial statements for the half-year ended 31 December 2015

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 cashflow 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:

	31 December 2015	30 June 2015
Estimated net amount of assets available to investors as at the period end (\$)	69,010,958	77,178,702
Total investor units (# of units)	478,321,851	478,537,325
Estimated net asset amount per unit available to investors as at the period end (cents in the dollar)	14.4	16.1

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

Notes to the financial statements for the half-year ended 31 December 2015

3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS

(a) Distributions to unitholders

	31 December 2015	31 December 2014
	\$	\$
Distributions paid/reinvested	-	-
Distributions payable	-	-
	<hr/>	<hr/>
	<hr/>	<hr/>

Distributions payable relates to distributions that were required to be paid under the Scheme's Constitution. These distributions relate to the period prior to the suspension of the distributions in January 2011.

In addition to these interest distributions, capital distributions were also paid to investors in February and June 2013. Capital distributions are reflected through redemption of units and a decrease in the unit price.

(b) Distributions paid

	31 December 2015	31 December 2014
	\$	\$
Class A	-	-
Class B	-	-
Class C	-	-
	<hr/>	<hr/>
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LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

Notes to the financial statements for the half-year ended 31 December 2015

4. EXPENSES

Other expenses

	31 December 2015	31 December 2014
	\$	\$
LM Administration Pty Ltd (in Liquidation) ("LMA") operational costs*	-	1,625,918
Receivers and Managers' fees and outlays (McGrathNicol)	460,209	508,195
Receivers and Managers' legal fees and outlays (McGrath Nicol)**	149,674	712,743
LMA Liquidator fees and outlays (David Clout & Associates)	-	82,197
Other expenses	150,031	67,937
Court Appointed Receiver's fees & outlays (BDO) **	1,245,128	1,271,435
Court Appointed Receiver's legal fees (BDO)	1,984,535	99,144
LMIM's legal fees (FTI)	402,730	239,695
LMIM's Administrators and Liquidators fees and outlays (FTI) ***	217,605	350,771
	<u>4,609,912</u>	<u>4,958,035</u>

*LMA operational costs relate to services provided by LMA pursuant to a services agreement. This includes wages and salaries, insurance, rent and utilities.

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

*** Denotes expenses which are subject to approval by the Receivers and Managers or the court.

The Court Appointed Receiver's fees & outlays are represented by the following amounts:

	31 December 2015	31 December 2014
	\$	\$
Court Appointed Receiver's investigations and other non-operating costs	739,870	251,823
Operating Costs of the Fund	505,258	1,019,612
Total	1,245,128	1,271,435

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, litigation matters which include claims against the MPF, LMIM and its directions and dealing with LMIM's court application in respect of the Liquidators' residual powers.

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

Notes to the financial statements for the half-year ended 31 December 2015

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

	31 December 2015	30 June 2015
	\$	\$
Class A		
Opening balance	245,679,110	245,678,130
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	980
Closing balance	<u>245,679,110</u>	<u>245,679,110</u>
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	<u>220,196,311</u>	<u>220,196,311</u>
Class C		
Opening balance	11,170,694	10,906,900
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	-
Foreign exchange (gain)/loss on investor funds	1,275,678	263,794
Closing balance	<u>12,446,372</u>	<u>11,170,694</u>
Cumulative movement in changes in net assets attributable to unitholders	(409,310,835)	(399,867,414)
Net assets attributable to unitholders	<u>69,010,958</u>	<u>77,178,701</u>

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

Notes to the financial statements for the half-year ended 31 December 2015

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

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.

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, all unitholders are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at unitholders' meetings. As the Scheme is being wound up, all unitholders rank after creditors and are equally entitled to the proceeds of the winding up procedure.

6. LOANS AND RECEIVABLES

	31 December 2015	30 June 2015
	\$	\$
Secured mortgage loans	99,613,574	159,557,989
Provision for impairment	(75,722,150)	(116,224,073)
	<u>23,891,424</u>	<u>43,333,916</u>

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.

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

Notes to the financial statements for the half-year ended 31 December 2015

6. LOANS AND RECEIVABLES (Continued)

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 of 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 31 December 2015, and the amounts that are actually realised. Such differences may be material. Accordingly, there is a material uncertainty regarding recoverability of Loans and Receivables.

(a) Provisions for impairment

The impairment loss expense relating to loans and receivables comprises:

	31 December 2015	30 June 2015	31 December 2014
	\$	\$	\$
Opening balance	116,224,073	299,158,892	299,158,892
Impairment losses provided for (recoveries) during the period	4,060,120	(26,633,748)	(18,320,812)
Impairment losses realised during the period	(44,562,043)	(156,301,071)	(62,428,946)
Closing balance	<u>75,722,150</u>	<u>116,224,073</u>	<u>218,409,134</u>
Total provision for impairment	<u><u>75,722,150</u></u>	<u><u>116,224,073</u></u>	<u><u>218,409,134</u></u>

The \$4,060,120 movement during the period to 31 December 2015 is largely derived from GST payable on the seven retirement villages not taken up in the impairment as at 30 June 2015.

(b) Movement in default loans

Movement in default loans

	31 December 2015	30 June 2015
	\$	\$
Gross default loans opening balance	159,557,989	359,219,509
New and increased default loans	7,093,059	7,224,842
Balances written off	(44,562,043)	(156,301,071)
Repaid	(22,475,431)	(50,585,291)
Gross default loans closing balance	<u>99,613,574</u>	<u>159,557,989</u>
Specific provision	(75,722,150)	(116,224,073)
Net default loans	<u><u>23,891,424</u></u>	<u><u>43,333,916</u></u>

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

Notes to the financial statements for the half-year ended 31 December 2015

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.

	31 December 2015	30 June 2015
	\$	\$
Accounts payable	8,958,218	7,429,179
	<u>8,958,218</u>	<u>7,429,179</u>

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 has 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.

As mentioned in the Court Appointed Receiver's reports to investors, whilst the secured creditor has been repaid in full, the Receivers and Managers appointed by the secured creditor have advised that they are not yet in a position to retire until the potential claim by KordaMentha as the new trustee of the LM Managed Performance Fund is resolved.

KordaMentha, acting as trustee of the MPF has put the Court Appointed Receiver and the Receivers and Managers appointed by the secured creditor on notice of a potential claim against LM Investment Management Limited (Receivers and Managers Appointed) (in Liquidation) ("LMIM") and/or the Fund in relation to potential breaches of trust.

9. RELATED PARTIES

Responsible Entity ('RE')

The RE for the Fund is LMIM. The transactions recorded relate to fees and expenses incurred in accordance with the Constitution.

Administration and funds management services were provided to the Scheme on behalf of the RE by LM Administration Pty Ltd (In Liquidation) ('LMA'), an associate of the RE, until 23 December 2014 when the staff and directors were terminated and the LMA offices closed. LMA were paid a management fee directly from the Scheme. Management fees for the period ending 31 December 2015 is \$nil (31 December 2014: \$nil).

Custodian

The Custodian of the Fund is The Trust Company (PTAL) Ltd.

Balance with related parties (Payable)

The Transaction with O'Sullivan Capital Management Ltd is in respect of marketing services provided in New Zealand by the former director John O'Sullivan.

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

Notes to the financial statements for the half-year ended 31 December 2015

	31 December 2015	30 June 2015	31 December 2014
	\$	\$	\$
<u>RE remuneration received or due & receivable</u>			
Management fees for the year or half-year paid or payable directly to LM Administration	-	-	-
Custodian's fees paid by the Scheme	84,052	27,624	29,805
<u>Balance with related parties (payable)</u>			
O'Sullivan Capital Management Ltd	-	-	160,071
<u>FTI Consulting</u>			
LMIM's legal fees (FTI)	402,730	99,144	99,144
LMIM's Administrators and Liquidators fees and outlays (FTI) *	217,605	652,611	590,466

* Denotes expenses which are subject to approval by the court

10. RECEIVABLES

Prior to 1 January 2014, receivables consisted of the interest on the loans for the period from the 18th of the month, when the interest is run until the end of the month and GST which is due at 30 June 2013 and 31 December 2013. From 1 January 2014, interest was suspended and not brought to account as it is considered that the amounts are not ultimately recoverable from the sale proceeds of the property.

	31 December 2015	30 June 2015
	\$	\$
Term deposit interest receivable	225,330	-
Total interest receivable	225,330	-
Provision for interest impairment	-	-
GST receivable	123,898	782,658
	<u>349,228</u>	<u>782,658</u>

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. The cash at bank figure includes monies held in foreign exchange margin accounts and not available for use.

	31 December 2015	30 June 2015
	\$	\$
Cash at bank	<u>55,100,560</u>	<u>41,863,342</u>

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

Notes to the financial statements for the half-year ended 31 December 2015

11. CASH AND CASH EQUIVALENTS (Continued)

As at 31 December 2015, \$211,830 (30 June 2015: \$238,081) of cash at bank was held in foreign exchange margin accounts and was not available for use by the Scheme.

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

	31 December 2015	31 December 2014
	\$	\$
Change in net assets attributable to unitholders	(9,443,421)	13,304,904
<i>Adjustments for:</i>		
Non-cash impairment expense	4,060,120	(18,320,812)
Distribution to unitholders		
(Gains)/loss on foreign exchange contracts	26,252	(31,330)
(Gains)/loss on investor funds/foreign exchange adjustments	1,275,678	263,794
(increase)/decrease in other receivables	433,430	70,900
Increase/(decrease) in payables	1,502,787	1,202,362
<i>Net cash flows from/(used in) operating activities</i>	(2,145,154)	(3,510,182)

12. INTEREST REVENUE

Interest revenue relates to interest received on funds held in the bank accounts and interest charged on the loans.

Interest on loans is suspended and not brought to account when it is considered that the amounts are not ultimately recoverable from the sale proceeds of the property.

13. CONTINGENT LIABILITIES

Advisor Commissions

The Fund has historically recognised a liability for advisor commissions paid to advisors from the Fund. The agreements providing for these advisor commissions appear to have been entered into between the Responsible Entity in its own legal capacity rather than as trustee and Responsible Entity for the Fund. It also appears that conditions existed in the period from 1 July 2010 such that advisor commissions may not have been payable in accordance with the Fund Constitution from Fund property. The liability for advisor commissions as at 30 June 2012 of \$4,762,674 has therefore been derecognised as a liability of the Fund during the year ended 30 June 2013.

Accordingly, the Fund has disclosed a contingent liability of \$4,762,674 as at 30 June 2013 to the Responsible Entity for this amount.

The contingent liability relates to advisor commissions to brokers of the Fund that were referable to the period 1 July 2010 to 30 November 2013. The Responsible Entity has sought to disclaim the advisor commission arrangements.

Given this matter has not been resolved, we believe it is prudent to provide this note as a contingent liability.

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

Notes to the financial statements for the half-year ended 31 December 2015

13. CONTINGENT LIABILITIES (Continued)

Claim by KordaMentha as Trustee of the LM Performance Fund

In August 2014, KordaMentha Pty Ltd and Calibre Capital Pty Ltd as trustees of the MPF filed (but did not initially serve) two proceedings against LMIM relating to two loans that were allegedly assigned from the FMIF to the MPF on 28 August 2008, seeking relief including declarations of constructive trust against assets of the Fund. Calibre Capital Pty Ltd has since resigned as trustee of the MPF, and has been removed as a party to the proceedings.

The proceedings have now been served.

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 and for the plaintiff, KordaMentha as trustee of the MPF to file second further amended statements of claim (2nd FASOC's). The 2nd FASOC's were filed on 29 February 2016 and varied the relief sought by, inter alia, deleting the constructive trust claim. The following relief is presently sought by the plaintiff, 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.
- Further and in the alternative, Declarations that:
 - the plaintiff and FMIF unitholders rank equally in the Fund;
 - the plaintiff is entitled to a rateable distribution in the Fund in relation to the settlement sum and interest paid by LMIM as trustee of the MPF to LMIM as RE of the FMIF under the Deed of Assignment;
 - the plaintiff is entitled to an equitable charge or lien to the extent of its rateable distribution.

In accordance with orders made on 9 March 2016, Mr Whyte's solicitors wrote to the plaintiff's solicitors raising certain issues in relation to the second further amended statements of claim, and requesting further and better particulars of certain allegations made in the second further amended statements of claim.

The solicitors for the plaintiff have replied to this correspondence, and advised that the plaintiff will be filing third further amended statements of claim (3rd FASOC's) in each proceeding addressing a number of issues raised by Mr Whyte. Orders were made on or about 15 April 2016 requiring the plaintiff to file and serve 3rd FASOC's in each proceeding by 19 April 2016, Mr Whyte to file and serve any application to strike out or for further and better particulars of the third further amended statements of claim by 26 April 2016 and if no such applications are filed, defences must be filed by Mr Whyte by 27 May 2016.

Mr Whyte intends to defend the claims made against FMIF assets in the proceedings. The ultimate outcome of the claims and timing of that outcome are uncertain.