

7 August 2014

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 ended 30 June 2013 and half year ended 31 December 2013.

During the reporting periods the following insolvency events have taken place:

- John Park and Ginette Muller of FTI Consulting were appointed as Administrators of the Fund's Responsible Entity, LM Investment Management Ltd (In Liquidation) ("LMIM") on 19 March 2013. They were subsequently appointed as Liquidators of LMIM on 1 August 2013.
- Joseph Hayes and Anthony Connelly of McGrathNicol were appointed as Receivers and Managers of the Fund on 11 July 2013 by the secured creditor, Deutsche Bank.
- I was appointed Receiver over the assets of the Fund and as person responsible for ensuring the Fund is wound up pursuant to the terms of its constitution by the Supreme Court of Queensland on 8 August 2013.

The accounts have been prepared in conjunction with the service provider, LM Administration Pty Ltd's (In Liquidation) staff and consultants and by collating the records maintained by the Fund, the service provider 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

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

David Whyte
Court Appointed Receiver

Disclaimer:

The 30 June 2013 and 31 December 2013 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 year ended 30 June 2013 and
half-year ended 31 December 2013

Disclaimer

The 30 June 2013 and 31 December 2013 financial statements were compiled by BDO Business Recovery & Insolvency (QLD) 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

Report for the year ended 30 June 2013 and half-year ended 31 December 2013

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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 2013 and half-year ended 31 December 2013

	Note	31 December 2013 \$	30 June 2013 \$	30 June 2012 \$
Income				
Interest revenue - mortgage loans		32,901	155,173	31,608,319
Interest revenue - cash assets		65,997	220,092	420,812
Realised foreign exchange gain on investor funds		3,307	49,913	69,271
Realised gain on foreign exchange contracts		57,297	-	-
Unrealised foreign exchange gain on foreign exchange contracts		-	129,192	-
Derecognition of advisor commission liability	14	-	4,762,674	-
		<u>159,502</u>	<u>5,317,044</u>	<u>32,098,402</u>
Expenses				
Management fees	10	606,195	4,519,156	9,103,864
Finance costs	4(a)	1,829,589	5,013,661	8,593,798
Custodian fees	10	47,508	49,107	77,904
Advisor commissions	14	-	-	2,165,236
Impairment losses on mortgage loans	7	240,007	186,553,576	99,144,122
Impairment losses on interest receivable	11	43,436	980,936	-
Unrealised foreign exchange losses on investor fund		941,952	805,947	167,394
Unrealised foreign exchange loss on foreign exchange contracts		-	-	145,432
Realised loss on foreign exchange contracts		-	263,566	36,203
Other expenses	4(b)	5,628,107	5,167,395	1,280,026
Total expenses excluding distributions to unitholders		<u>9,336,794</u>	<u>203,353,344</u>	<u>120,713,979</u>
Net (loss) before distributions to unitholders		(9,177,292)	(198,036,300)	(88,615,577)
Distributions paid/payable to unitholders		(348)	(2,710,288)	(17,024,389)
Net (loss) after distributions to unitholders		<u>(9,177,640)</u>	<u>(200,746,588)</u>	<u>(105,639,966)</u>
Other comprehensive income		-	-	-
Net (loss) after distributions to unitholders		(9,177,640)	(200,746,588)	(105,639,966)
Income tax expense				
Changes in net assets attributable to unitholders after income tax expense		<u>(9,177,640)</u>	<u>(200,746,588)</u>	<u>(105,639,966)</u>

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

As at 30 June 2013 and 31 December 2013

	Note	31 December 2013 \$	30 June 2013 \$	30 June 2012 \$
ASSETS				
Cash and cash equivalents	12(a)	2,045,959	9,055,002	8,123,428
Receivables	11	443,288	225,943	1,279,828
Loans & Receivables	7	78,209,130	99,877,471	334,573,501
TOTAL ASSETS		80,698,377	109,158,416	343,976,757
LIABILITIES				
Management fee payable	10	0	0	2,470,000
Financial assets at fair value through profit or loss		0	0	129,192
Payables	8	6,578,584	5,278,291	7,980,824
Interest bearing loans and borrowings	9	4,000,000	25,500,000	39,610,078
Distributions payable		1,379,917	1,381,435	4,806,035
Total liabilities excluding net assets attributable to unitholders		11,958,501	32,159,726	54,996,129
NET ASSETS		68,739,876	76,998,690	288,980,628
Represented by:				
Net assets attributable to unitholders		68,739,876	76,998,690	288,980,628
(calculated in accordance with IFRS)				

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 2013 and half-year ended 31 December 2013

	31 December 2013 \$	30 June 2013 \$	30 June 2012 \$
TOTAL			
Opening balance	76,998,690	288,980,628	382,187,323
Units issued during the year	0	11,750	3,012,163
Units redeemed during the year	(24,305)	(15,651,157)	(6,666,198)
Units issued on reinvestment of distributions	0	3,618,159	15,959,774
Changes in net assets attributable to unitholders	(9,177,640)	(200,746,588)	(105,639,966)
Foreign exchange (gain)/loss on investor funds	943,131	785,898	127,532
Closing Balance	68,739,876	76,998,690	288,980,628

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

For the year ended 30 June 2013 and half-year ended 31 December 2013

	Note	31 December 2013 \$	30 June 2013 \$	30 June 2012 \$
Cash flows from operating activities				
Interest and distributions received		123,294	252,273	404,955
Management fees paid		(606,195)	(4,519,156)	(5,180,443)
Other operating expenses		(4,418,758)	(6,607,297)	(759,450)
Other income received		3,307	(213,653)	-
GST and withholding tax (paid)/received		(217,345)	1,053,885	-
Finance costs paid	4(a)	(1,829,589)	(5,013,661)	(8,143,798)
Net cash inflow/(outflow) from operating activities	12(b)	<u>(6,945,286)</u>	<u>(15,047,609)</u>	<u>(13,678,736)</u>
Cash flows from investing activities				
Payments for secured mortgage loans		(7,543,788)	(6,306,405)	(16,924,379)
Receipts from settled mortgage loans		29,005,024	54,571,851	46,822,765
Net cash inflow/(outflow) from investing activities		<u>21,461,236</u>	<u>48,265,446</u>	<u>29,898,386</u>
Cash flows from financing activities				
Repayment of facility		(21,500,000)	(14,110,078)	(22,789,710)
Cash paid on realisation of foreign exchange contracts		-	-	(69,271)
Receipts from the issue of units		-	-	2,312,382
Distributions paid		(1,868)	(6,135,409)	(2,424,725)
Payment for redemption of units		(23,125)	(12,040,776)	(3,600,345)
Net cash inflow/(outflow) from financing activities		<u>(21,524,993)</u>	<u>(32,286,263)</u>	<u>(26,571,669)</u>
Net increase/(decrease) in cash and cash equivalents		(7,009,044)	931,574	(10,352,019)
Cash and cash equivalents at beginning of year		9,055,002	8,123,428	18,475,447
Cash and cash equivalents at end of year	12(a)	<u>2,045,959</u>	<u>9,055,002</u>	<u>8,123,428</u>

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

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 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 year ended 30 June 2013 and half-year ended 31 December 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(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.

At the time the fund closed, there were 55 loan assets with 28 repaid as at 30 June 2012. Since this time, a further 7 loan assets have been repaid.

Liquidation Basis

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

The financial statements for the periods ended 30 June 2013 and 31 December 2013 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 estimated 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 year ended 30 June 2013 and half-year ended 31 December 2013

2. 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) Finance costs

Interest on borrowings is recognised in the statement of comprehensive income in the period to which it relates. Issue costs associated with borrowings are capitalised and amortised over the term of the borrowing to which they relate using the effective interest method.

(k) 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 year ended 30 June 2013 and half-year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

(l) 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 recognised separately on the statement of financial position as unitholders are presently entitled to the distributable income as at 30 June 2013 and 31 December 2013 under the Scheme’s constitution.

(m) 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.

(n) 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 year ended 30 June 2013 and half-year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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.

(q) 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).

(r) 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.

(s) Derivative financial instruments

The Scheme uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to valuations provided by the financial institutions with which the forward contracts are held.

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) 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.

(v) 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 Note 7 of 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 2013	30 June 2013	30 June 2012
Estimated net amount of assets available to investors as at the period end (\$)	68,739,876	76,998,690	288,980,628
Total investor units (# of units)	478,473,011	477,554,184	488,787,330
Estimated net asset amount per unit available to investors as at the period end (cents in the dollar)	14.4	16.1	59.1

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS**(a) Distributions to unitholders**

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Distributions paid/reinvested	348	2,710,289	12,218,354
Distributions payable	-	-	4,806,035
	<u>348</u>	<u>2,710,289</u>	<u>17,024,389</u>

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 2013	30 June 2013	30 June 2012
	\$	\$	\$
Class A	327	31,986	-
Class B	-	2,678,303	16,904,211
Class C	21	-	120,178
	<u>348</u>	<u>2,710,289</u>	<u>17,024,389</u>

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

4. EXPENSES

(a) Finance costs

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Interest on bank loans	1,829,589	4,719,566	8,143,798
Facility fees	-	294,095	450,000
	<u>1,829,589</u>	<u>5,013,661</u>	<u>8,593,798</u>

(b) Other expenses

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
LM Administration Pty Ltd (in Liquidation) ("LMA") operational costs	1,947,361	1,442,586	-
Receivers and Managers' fees and outlays (McGrathNicol)	765,329	-	-
Legal fees	432,818	502,928	523,012
LMA Liquidator fees and outlays (David Clout & Associates)	173,175	-	-
Audit fees	-	230,736	559,905
Other expenses	57,706	741,079	197,109
Court Appointed Receiver's fees & outlays (BDO) *	470,974	-	-
Court Appointed Receiver's legal fees (BDO)	234,515	-	-
LMIM's legal fees (FTI)	175,375	750,636	-
LMIM's Administrators and Liquidators fees and outlays (FTI) **	1,370,854	1,499,430	-
	<u>5,628,107</u>	<u>5,167,395</u>	<u>1,280,026</u>

* 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.

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

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

5. AUDITOR'S REMUNERATION

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Audit and review of the financial reports	-	203,544	534,258
Other regulatory audit services	-	27,192	25,647
	-	<u>230,736</u>	<u>559,905</u>

The fees charged in the financial year 2013 relate to work undertaken to finalise the 30 June 2012 audited accounts, the preparation of draft accounts for 31 December 2012 and planning work for 30 June 2013 accounts as requested by FTI Consulting.

These expenses have been included within 'Other expenses' in the Statement of Comprehensive Income.

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

6. 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 2013	30 June 2013	30 June 2012
	\$	\$	\$
Class A			
Opening balance	245,673,002	252,760,731	254,832,731
Units issued during the year	-	-	-
Units redeemed during the year	(858)	(7,087,729)	(2,072,000)
Units issued upon reinvestment of distributions	-	-	-
Closing balance	245,672,144	245,673,002	252,760,731
Class B			
Opening balance	220,219,758	224,862,439	210,391,005
Units issued during the year	-	11,750	3,004,384
Units redeemed during the year	(23,447)	(8,272,590)	(4,497,306)
Units issued upon reinvestment of distributions	-	3,618,159	15,964,356
Closing balance	220,196,311	220,219,758	224,862,439
Class C			
Opening balance	10,170,587	9,675,527	9,635,388
Units issued during the year	-	-	-
Units redeemed during the year	-	(290,838)	(47,739)
Units issued upon reinvestment of distributions	-	-	-
Foreign exchange (gain)/loss on investor funds	943,131	785,898	87,878
Closing balance	11,113,718	10,170,587	9,675,527
Cumulative movement in changes in net assets attributable to unitholders	(408,242,297)	(399,064,657)	(198,318,069)
Net assets attributable to unitholders	68,739,876	76,998,690	288,980,628

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

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

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

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.

7. LOANS AND RECEIVABLES

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Secured mortgage loans	355,344,509	402,183,769	467,528,292
Secured mortgage loans (2 nd priority)	15,900,037	13,276,963	13,310,672
Provision for impairment	(333,208,829)	(342,614,380)	(146,265,463)
Net loans and advances	<u>78,209,130</u>	<u>99,877,471</u>	<u>334,573,501</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.

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 periods ended 30 June 2013 and 31 December 2013, and the amounts that are actually realised. Such differences may be material. Accordingly, there is a material uncertainty regarding recoverability of Loans and Receivables.

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

7. LOANS AND RECEIVABLES (Continued)

(a) Aggregate amounts receivable from related parties

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Director and director-related entities – secured	-	6,072,342	8,209,841
Related managed investment schemes – secured	-	1,310,838	1,708,151
Related managed investment schemes – unsecured	-	-	-
	-	7,383,180	9,917,992

(b) Provisions for impairment

The impairment loss expense relating to loans and receivables comprises:

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Opening balance	315,583,261	146,265,463	76,425,453
Impairment losses provided for during the period	240,007	186,553,576	99,144,122
Impairment losses realised for during the period	(22,787,852)	(17,235,778)	(29,304,112)
Closing balance	293,035,416	315,583,261	146,265,463
Total provision for impairment	293,035,416	315,583,261	146,265,463
<i>Changes to operating profit/(loss) before tax for impairment losses on loans and receivables comprises:</i>			
Specific provision	(22,547,845)	169,317,798	69,840,010
Impairment losses recognised directly in Statement of comprehensive income	22,787,852	17,235,778	29,304,112
	240,007	186,553,576	99,144,122

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

7. LOANS AND RECEIVABLES (Continued)

(c) Movement in default loans

Movement in default loans

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Gross default loans opening balance	415,460,732	457,610,299	481,037,628
New and increased default loans	5,730,747	(43,605,801)	67,271,669
Balances written off	(22,787,852)	(17,235,778)	(29,304,112)
Returned to performing or repaid	(27,159,081)	(68,519,590)	(61,394,886)
Gross default loans closing balance	371,244,546	415,460,732	457,610,299
Specific provision	(293,035,416)	(315,083,261)	(146,256,463)
Net default loans	78,209,130	99,877,471	311,344,836

8. 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 2013	30 June 2013	30 June 2012
	\$	\$	\$
Loan management fee payable	-	-	2,073,206
Accounts payable	6,578,584	5,278,291	5,907,618
	6,578,584	5,278,291	7,980,824

9. 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.

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Secured bank loan	4,000,000	25,500,000	39,610,078

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

9. INTEREST BEARING LOANS AND BORROWINGS (Continued)

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.

10. RELATED PARTIES

Responsible Entity ('RE')

The RE for the Fund is LM Investment Management Ltd (in Liquidation) ('LMIM'). The transactions recorded relate to fees and expenses incurred in accordance with the Constitution.

Administration and funds management services are provided to the Scheme on behalf of the RE by LM Administration Pty Ltd (In Liquidation) ('LMA'), an associate of the RE. LMA is paid a management fee directly from the Scheme.

Custodian

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

Balance with related parties (Receivable)

This relates to two loans within the Fund portfolio, both of which have been finalised between 1 July 2012 and 31 December 2013.

Balance with related parties (Payable)

The transaction with LM Administration Pty Ltd (In Liquidation) relates to fees incurred in accordance with the service agreement.

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 year ended 30 June 2013 and half-year ended 31 December 2013

10. RELATED PARTIES (Continued)

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
<i><u>RE remuneration received or due & receivable</u></i>			
Management fees for the year or half-year paid or payable directly to LM Administration	606,195	4,519,156	9,103,864
Expenses including administration expenses incurred by the RE and its associated entities, which are reimbursed in accordance with the provisions of the Constitution	-	189,983	28,983
Expenses including administration expenses incurred by the RE and its associated entities, which are not reimbursed	-	-	38,524
Custodian's fees paid by the Scheme	47,508	49,107	77,904
<i><u>Balance with related parties (Receivable net of impairment)</u></i>			
Australian International Investments Pty Ltd	-	6,072,342	8,209,841
LM Managed Performance Fund	-	1,310,838	1,708,151
<i><u>Balance with related parties (payable)</u></i>			
LM Administration	-	-	2,470,000
O'Sullivan Capital Management Ltd	160,071	160,071	109,157
<i><u>FTI Consulting</u></i>			
LMIM's legal fees (FTI)	175,375	750,636	-
LMIM's Administrators and Liquidators fees and outlays (FTI) *	1,370,854	1,499,430	-

* Denotes expenses which are subject to approval by the court

LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)**Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013****11. RECEIVABLES**

Receivables consist 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.

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Mortgage interest receivable	43,238	926,444	972,381
Penalty interest receivable	198	54,492	181,131
Total interest receivable	43,436	980,936	1,153,512
Provision for interest impairment	(43,436)	(980,936)	-
GST receivable	443,288	225,943	120,451
Other	-	-	5,865
	<u>443,288</u>	<u>225,943</u>	<u>1,279,828</u>

During the year, the penalty interest receivable was capitalised onto the secured mortgage loan balance. See Note 7 and Note 13.

12. 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 2013	30 June 2013	30 June 2012
	\$	\$	\$
Cash at bank	<u>2,045,959</u>	<u>9,055,002</u>	<u>8,123,428</u>

As at 31 December 2013, \$272,483 and as at 30 June 2013, \$271,402 (2012: \$420,812) of cash at bank was held in foreign exchange margin accounts and was not available for use by the Scheme.

The Scheme's borrowing agreement requires the Scheme to hold a minimum cash balance of \$6 million across two bank accounts, one of which is a restricted account. This restriction is applicable as at 30 June 2013 and 31 December 2013, however the facility was paid out in January 2014 and this restriction no longer applies.

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

Notes to the financial statements for the year ended 30 June 2013 and half-year ended 31 December 2013

12. CASH AND CASH EQUIVALENTS (Continued)**(b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities**

	31 December 2013	30 June 2013	30 June 2012
	\$	\$	\$
Change in net assets attributable to unitholders	(9,177,640)	(200,746,588)	(105,639,966)
<i>Adjustments for:</i>			
Non-cash impairment expense	240,007	186,553,576	98,845,139
Non-cash interest income	(32,901)	(122,992)	(31,526,951)
Non-cash management fees	-	-	(4,228,333)
Distribution to unitholders	348	2,710,288	16,533,426
(Gains)/loss on foreign exchange contracts	-	-	(145,432)
(Gains)/loss on investor funds	941,952	805,947	(167,394)
(Increase)/decrease in interest receivable	(217,345)		(97,225)
(increase)/decrease in other receivables	-	1,053,885	11,731,431
Increase/(decrease) in payables	1,300,293	(5,301,725)	717,585
<i>Net cash flows from/(used in) operating activities</i>	(6,945,286)	(15,047,609)	(13,678,736)

13. 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.

For the purposes of these accounts, the interest remains within the income section and the impairment losses for the period increased.

14. CONTINGENT LIABILITY**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.