

TO THE INVESTOR AS ADDRESSED

30 January 2015

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

I refer to my previous reports and now provide my eighth update to investors in relation to the winding up of the Fund, as follows.

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

As previously advised, even though the secured creditor has been repaid in full, the Receivers and Managers appointed by the secured creditor have advised that they are not in a position to retire until the potential claim by KordaMentha as the new trustee of the MPF is resolved.

I refer to my previous report which discussed the issues that KordaMentha were experiencing in obtaining some 227,000 documents from the Liquidators of LM Investment Management Ltd (In Liquidation) (Receivers and Managers Appointed) ("LMIM"), due to these either containing information confidential to other funds or that LMIM identified as "unknown" and where they are unsure if they relate to the MPF.

Since issuing my last report dated 16 October 2014 and in response to the closure of the LM office, I made an application to the Supreme Court of Queensland to enter into an agreement with LMA's Liquidator for direct access to the records held by LMA in so far as they relate to FMIF. This is discussed in more detail at section 3.5 below. In response to my application, KordaMentha made an application to the court for similar access in an attempt to resolve the issues with obtaining the remaining records.

Following a court hearing on 29 January 2015, KordaMentha will be granted access to all books and records subject to the execution of an undertaking to the court that they will not interrogate the records for anything other than for the MPF and will not use anything that does not relate to the MPF.

In my previous report, I notified investors that KordaMentha's solicitors have advised they have instructed Queen's Counsel in respect of two matters that involve potential claims against the assets of FMIF and that they are investigating further potential claims or if these will be pursued.

Since my last report, I have not received any further communications from KordaMentha in respect of the amount of the potential claims or if these will be pursued.

No specific claims have been made by KordaMentha against Deutsche Bank.

As discussed at section 3.2.1 below, on 17 December 2014, I filed a statement of claim in the Supreme Court of Queensland, against a number of parties including the MPF, in respect of the loss suffered by FMIF as a result of the amount paid to MPF in the Bellpac litigation matter. This claim is for in excess of \$20M.

2. Realisation of Assets

In my report dated 16 October 2014, I provided a summary of the assets to be realised. In the tables below, I summarise the assets realised since then and those remaining to be realised.

You will note from the summary below that meaningful progress has been made in the realisation of the assets including four of the retirement village assets being under contract. An offer had been accepted for a fifth retirement village however this has recently fallen through with the agent continuing negotiations with three other parties. Three sales are subject to unconditional contracts due to settle on 23 April 2015. The other sale is subject to one condition which is to be satisfied within 90 days with settlement 7 days thereafter.

Assets realised since 30 September 2014

Location	Description of asset
QLD	The development is an eight stage project to provide 116, 3 or 4 bedroom townhouses. Since my last report the remaining 2 units of stage 7 have settled along with all 12 of stage 8.
NSW	The security is comprised of 4 units within a larger purpose built commercial building. Two adjoining units are occupied by a dance and yoga studio with the other two units unoccupied. A sale of the occupied units was completed in June 2013. Since my last report the remaining two units have settled.

Assets with partial realisations

Location	Description of asset	
QLD	90 strata titled hotel rooms. Since my last report which included the position as at 30 September 2014, when 7 units remained, a further 3 units have settled with 4 remaining.	On the market
WA	The development has been subdivided into three super lots. The first lot was sold in January 2014. A second lot was under contract however the conditions of the contract were not met and therefore it was terminated. The two remaining lots are currently on the market.	On the market
QLD	Residential land subdivision. 80 lots with operational works approval and additional land (approx. 57ha) with or pending development approval together with one residential property are currently on the market.	On the market
NSW	The development comprises of 83 strata titled office lots with 63 of these units charged to the Fund. Of the 63 units, 59 remained as at 30 November 2013. Since that time, a further three units have been sold.	Under contract

Location	Description of asset	
	Following an extensive marketing campaign in June/July last year, an offer was received to purchase the remaining units in one line. This was originally due to settle in late November 2014, however an extension was granted to the purchaser until 22 December 2014 for the unleased units (monies received on 19 December 2014) and until 30 January 2015 for the leased assets.	
QLD	72 strata titled unit resort complex with management rights. At the time of my appointment, 57 units remained. Following a marketing campaign in June/July last year, 19 units have settled with 5 due to settle in late January/early February. Proceedings commenced by the body corporate against the builder were settled late last year.	Under contract/on the market
QLD	A supported living community, comprising of 64 independent living units with the proposed development of a further 76 units. Of the current 64 units, 15 are vacant.	Under contract
NSW	A supported living community, with 83 completed independent living units. 22 units are currently vacant.	Under contract
QLD	A supported living community, with 37 completed independent living units plus balance land for further development. 4 units are currently vacant. There are also a further 7 completed detached dwellings and a partly constructed subdivision of c.100 townhouse/small dwelling lots under community title plus residual land.	Under contract
VIC	A supported living community, with 69 completed independent living units (5 vacant) and a further 129 proposed.	On the market
TAS	A supported living community, with 29 completed independent living units (no vacancies) and a further 15 proposed.	Under contract

Assets to be realised

Location	Description of asset	Status
QLD	Two supported living communities. One currently has 62 completed units (12 vacant) with a further 106 proposed. The other has 110 completed units, with 16 units currently vacant.	Borrower in control of assets

3. Other Potential Recoveries/Legal Actions

My previous report identified various matters which required additional investigation to determine whether there were any potential legal actions for dealings which occurred prior to my appointment as

Receiver. I provide an update in relation to investigations undertaken to date, legal proceedings on foot and further work to be done, as follows:

3.1 Public Examination

In my report dated 16 October 2014, I confirmed that I had been successful in obtaining the approval from ASIC as an eligible applicant under the Corporations Act 2001 (the Act) to conduct a Public Examination (PE) and I had instructed my solicitors to commence preparation for a PE.

On 17 November 2014, I filed in the Supreme Court my application to conduct a PE in relation to the financial audits undertaken of the FMIF. The persons to be examined are the auditors and certain directors of LMIM.

The application was to be heard on 21 November 2014 however, the Liquidators' of LMIM sought an adjournment of the hearing of the application on the basis that they needed more time to consider the application and advised me that it may be more appropriate for the Liquidators to bring the application to conduct the PE and not me. The hearing was adjourned for one week and after correspondence with the Liquidators' solicitors, the application was not opposed by the Liquidators and the application was granted on 27 November 2014.

Following the issue of the court order, my solicitors have been liaising with the Magistrate's Court and senior counsel who is to conduct the examinations to determine a suitable date for the parties to be examined and to produce documents in their possession. This will be on 16 March 2015 with the examination of the parties under oath likely to follow four to six weeks thereafter.

3.2 Bellpac Proceedings

3.2.1 Settlement of Gujarat proceedings

I refer to my previous reports to investors. I summarise the matter as follows:

- In November 2010, proceedings against Gujarat NRE Minerals Limited (Gujarat) were settled for a total amount of approximately \$45.6M;
- As MPF funded the majority of the costs of the litigation, the settlement proceeds received in 2011, were shared between the funds on the basis of a 65%/35% split;
- According to the security held by FMIF and MPF over the property the subject of the litigation, FMIF held first priority to all of the proceeds of the settlement and was entitled to all of the settlement proceeds;

On 17 December 2014, I filed a statement of claim in the Supreme Court of Queensland claiming \$15,546,147.85 plus interest (calculated from mid/late 2011 with the claim in excess of \$20M) being the loss suffered by FMIF as a result of the amount paid to MPF, against the following parties:

- Peter Drake;
- Lisa Darcy;
- Eghard Van Der Hoven;
- Francene Mulder;
- John O'Sullivan;
- Simon Tickner;
- LMIM; and

- The trustees of MPF

The date the defendants must file a defence is 28 days after deemed service on the relevant party. Since lodging the claim, Peter Drake has presented a debtors petition and is now an undischarged bankrupt. Two other directors are yet to be served as their whereabouts is not known and an application is currently being prepared for leave to proceed against LMIM as the company is in liquidation.

In November 2014 ASIC commenced civil penalty proceedings in the Federal Court of Australia against Peter Drake, Francene Mulder, Eghard Van Der Hoven, Simon Tickner and Lisa Darcy. ASIC alleges Mr Drake used his position to gain an advantage for himself and the former directors breached their director's duties for failing to act with the proper degree of care and diligence regarding transactions involving the MPF. The ASIC proceedings have been adjourned to February 2015.

3.2.2 Other Bellpac litigation

a. \$2 million of Wollongong Coal Ltd (WCL) - Convertible Bonds

I refer to my previous reports to investors. I summarise the matter as follows:

- FMIF has first ranking security over the assets of a borrower, Bellpac Pty Ltd (Bellpac) which is now in liquidation;
- In August 2008 \$10 million of Bonds were issued by WCL to Bellpac however, Bellpac transferred these Bonds to another party who further transferred to other parties;
- The proceedings by Bellpac and its Liquidators in regard to \$2 million Bonds (still in the name of Bellpac) commenced in January 2010. In 2012 Bellpac was successful in obtaining Orders that Bellpac is the true owner of the Bonds;
- The decision was appealed by the defendants in the Full Federal Court and the High Court which were unsuccessful;
- WCL is a publicly listed company and was formerly called Gujarat NRE Minerals Ltd;
- The Liquidators applied for conversion of the Bonds with a face value of \$2,000,000 into shares however, WCL failed to issue the shares as required and did not otherwise respond. The terms of the Bonds provide that the Bonds can be redeemed for their face value if WCL is unable to issue the shares. The Liquidators then applied to enforce the terms of the bonds and demanded that WCL redeem the bonds for their face value being \$2 million plus interest. Again there was no response.
- On 12 September 2014, WCL made an offer to settle the redemption claim which was rejected as it was too low;

Further developments are as follows:

- On 23 October 2014, the Liquidators served a creditor's statutory demand (CSD) on WCL for \$2.9 million being the face value of the bonds plus interest;
- On 28 October 2014, an offer was received from WCL to settle the CSD claim payable in 12 monthly instalments commencing in mid March 2015. This offer was rejected as there was no security for the payment of the settlement sum and the total amount was too low;
- On 7 November 2014, the Liquidator made a counter offer to settle the CSD claim, if paid by the expiry date of the CSD in late November 2014;

- On 11 November 2014, WCL filed an application to set aside the CSD with a hearing date of 13 February 2015. WCL argue that it was always able to issue the shares and remains able to do so. On the same day, WCL made an increased offer to settle the CSD claim payable in 12 monthly instalments commencing in mid March 2015. That offer was rejected as it did not provide any security for the payments;
- A counter offer to settle the claim was made by the Liquidators to settle the CSD claim which lapsed on 23 December 2014 without a response from WCL;

I am continuing to liaise with the Liquidators who are attempting to negotiate a commercial outcome to this claim.

As FMIF will be the beneficiary of the funds recovered from the \$2 million bonds claim after costs, FMIF is funding the Liquidator's care and preservation costs of realising the Bonds for the benefit of investors.

Further developments in relation to this claim will be provided in my next report to investors.

b. \$8 million of WCL Convertible Bonds

I refer to my previous reports to investors. I summarise the matter as follows:

- The proceedings by Bellpac and its Liquidators commenced in July 2012 seeking orders that Bellpac is the true owner of the \$8 million Bonds and the recovery of \$4.7 million transferred by Bellpac (pre Liquidation) to two of the defendants;
- If the Liquidators are successful in obtaining a declaration from the Court that Bellpac is the true owner of the Bonds, FMIF will be the beneficiary of the funds recovered by the Liquidator from realising the Bonds, after costs. In order to protect the interest of FMIF in Bellpac's claim to title to the Bonds, FMIF is continuing to fund the Liquidators' in the proceedings.
- At the Directions Hearing on 7 October 2014, the Court allocated a date for a five day trial to commence in March 2015. The Liquidators, their solicitors and counsel are currently preparing for the trial.

Further developments in relation to this claim will be provided in my next report to investors.

c. Proceedings against Bellpac Receivers, LMIM , The Trust Company Ltd ('the Parties')

I refer to my previous reports to investors. I summarise the matter as follows:

- In February 2013, parties including the second mortgagee over Bellpac commenced proceedings against the Parties in relation to the alleged sale of the Bellpac property at an undervalue. The property that was sold formed part of the settled proceedings outlined at Section 3.2.1 above;
- LMIM as RE for FMIF and the other respondents filed applications seeking security for costs from the applicants which was heard on 23 October 2014;

Further developments are as follows:

- On 15 December 2014, the decision in relation to the security for costs applications was handed down in favour of the applicants. The plaintiffs are required to pay \$550,000 into Court before the proceedings can continue;

- The plaintiffs were also ordered to pay the costs of the applicants;
- A Directions hearing is set down for early February 2015 however, will be vacated if the plaintiffs do not pay the security for costs.

3.3 Other Potential Claims against LMIM and related Parties

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

I refer to my previous reports to investors. I summarise the matter as follows:

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

Whilst I consider the directors of LMIM may have breached their duties in entering into these arrangements and that there may be a claim against them and/or LMA, I do not currently consider it commercially worthwhile to pursue these claims bearing in mind:

- I have commenced proceedings against the directors for an amount in excess of \$20m (including interest) in respect of the claim discussed at section 3.2.1 above;
- LMA is in liquidation with no dividend expected to creditors at this stage.

3.3.2 Distribution to Class B Unit Holders

I refer to my previous reports to investors. I summarise the matter as follows:

- During the financial year ended 30 June 2012 distributions of approximately \$16.9M were made to Class B unit holders at a time when class A and C unit holders did not receive any distributions, apart from hardship distributions;
- Class B unit holders, relate to the three feeder funds of FMIF;
- I am unaware of any rights of Class B unit holders which would entitle them to a priority distribution over other classes of unit holders in the Fund;
- The auditors qualified the financial statements in regard to this transaction;
- As a result of the distribution and reinvestment of a major portion of that distribution into units in FMIF, Class B unit holders increased their units in the fund from 44.33% to 46.14% at the expense of the Class A & C unit holders. This will result in the Class B unit holders receiving a greater amount in the winding up of the Fund;
- During the financial year ended 30 June 2013 (prior to the capital distributions in February and June 2013), the Feeder funds received further distributions of approximately \$2.6 million;
- The calculation of the percentage interest of the feeder funds in FMIF as stated in the 30 June 2012 audited financial statements has to date not been reconciled however, we expect this to be clarified once the auditors working papers and or LM's records are obtained in due course via the public examination.

Further developments are as follows:

- As advised in Section 3.1 above, a public examination will be undertaken in March/April 2015 and part of the investigations being undertaken will include the above mentioned transactions in 2012.

I continue to undertake investigations in relation to the above matters and these will be progressed through the conduct of the PE.

3.3.3 Changes to Constitution

I refer to my previous reports to investors. I summarise the matter as follows:

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

My investigations in relation to the above matters have not been concluded. I have yet to gain access to certain records and this has been made more difficult due to the comingled nature of the records. I refer to my application to Court to gain unfettered access to records which concern FMIF in Section 3.5 below.

I am mindful however, of the commerciality of conducting further extensive investigations given that any benefit to investors of potential legal claims arising from the above matters may only be recovered if an insurance policy responds to same and which may be entirely diminished if I am successful in the Bellpac/MPF claim (see Section 3.2.1 above) or from claims made against the policies following legal actions by other LM Funds. Accordingly, I will not carry out any further investigations in relation to this matter at this stage while the Bellpac/MPF claim proceedings are on foot.

3.3.4 Fund Valuation Policy

I refer to my previous reports to investors. I summarise the matter as follows:

- A review of the fund's compliance plan dated 16 March 2011 details the following regarding the fund's valuation policy:
 - Valuations may only be carried out by panel valuers; and

- An updated valuation will generally be required for commercial loans at 24 month intervals and construction loans at 12 month intervals.
- From my preliminary enquiries, it appears that the Responsible Entity did not generally obtain updated professional valuations after the initial advance was made. Instead, in the majority of cases, they relied upon discounted cash flows prepared by management on the feasibility of a project.

I refer to my comments in Section 3.3.3 above about the commerciality of incurring further costs when there may be no further return to investors. I therefore will not undertake any further investigations in relation to this matter at this stage while the Bellpac/MPF claim proceedings are on foot.

3.3.5 External Valuations

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

My investigations are ongoing in this respect.

3.4 Auditors

I confirm that I have not at this stage been able to progress my investigations due to an inability to gain access to the auditor's working papers and all relevant FMIF records. My investigations will be facilitated by undertaking the public examinations due to take place in March/April 2015.

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

3.5 Application to Court for Access to FMIF records

I have previously raised the difficulties faced with the intermingled LM records held by LMA and gaining access to the records that concern the FMIF to enable me to undertake my obligations to wind up the fund.

Until now, access to records requested by me have been via a screening process conducted by LM staff under the direction of LMA's Liquidator and in some cases, a requested document would need to be redacted before it was made available to me which can be a time consuming process.

In November 2014, in order to save costs, and with the agreement of the Liquidator of LMA who employed LM staff and consultants, McGrathNicol and I decided to close the LM office at Surfers Paradise on 23 December 2014 and terminate the employment/engagement of the LM staff.

On 2 December 2014, I made application to the Supreme Court of Queensland to enter into an agreement with LMA's Liquidator for direct access to the records held by LMA so that I could obtain records that concern the FMIF. That proposed arrangement involves certain of my nominated staff (and certain ex LM staff engaged by me) having direct access to the LM databases pursuant to strict undertakings by them to the Court not to deal with any non FMIF records.

Following court hearings on 12 December 2014, 15 December 2014 and 18 December 2014, a temporary access regime was agreed until 29 January 2015 with the hearing adjourned until that date.

At the hearing on 29 January 2015, full access to the records was approved by the court subject to undertakings being provided to the court not to interrogate the records for anything other than the FMIF and not to use anything that does not relate to the FMIF.

4. Closure of LM Office/Reduction in costs

As discussed above, following consultation with the relevant parties, a decision was made to close the LM office on 23 December 2014.

Prior to the office closure, the Fund had been incurring operating costs of approximately \$1.8m per annum in respect of the costs of employing staff and consultants to assist in managing down the loan book, plus premises and equipment costs.

Three members of the former LMA staff have been retained on a short term basis in order to assist McGrathNicol and ourselves with the realisation of the remaining assets.

5. Estimated Return to Investors

Based on the professional valuations, offers received and unconditional contracts entered into for the properties charged to the Fund, I provide an estimated return to Investors of between 15 and 17 cents in the dollar as at 31 December 2014, calculated as follows:

	Low \$	High \$
Cash at Bank	32,711,799	32,711,799
Funds held in trust	1,716,388	1,716,388
Estimated selling prices of properties to be sold	50,774,673	59,920,385
<i>Less:</i>		
Selling costs (2.5% of sale price)	(1,333,312)	(1,569,055)
Land tax & rates	(250,000)	(250,000)
Other unsecured creditors	(9,380,753)	(4,451,688)
FTI Fees & legal costs claimed (subject to approval)	(3,394,747)	(3,394,747)
Receivers and Managers' Fees (McGrathNicol)	(253,965)	(253,965)
Receiver's fees & outlays (BDO)	(937,768)	(937,768)
Estimated net amount available to investors as at 31 December 2014	69,716,262	83,562,396
Total investor units	478,273,531	478,273,531
Estimated return in the dollar	0.15	0.17

The low range has increased from 12 cents at the date of my last report primarily due to ongoing realisations being higher than the low value and unconditional contracts having been entered into for three retirement villages with the relevant amount being used to calculate the low value.

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

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

6. Updated Unit Price

The unit price will be updated twice per year as at 30 June and 31 December. In this regard, I provide below an updated unit price as at 31 December 2014 of 16 cents, which is based on the mid-point of the high and low estimated selling prices of the secured assets as at 31 December 2014.

	\$000's
Total Value of Fund Assets as at 31 December 2014 (net of land tax and rates)	89,776
Less Creditors and Other Payables	(13,690)
Total Net Value of Fund Assets	76,086
Total Number of Units as at 31 December 2014	478,274
Unit Price	0.16

I *attach* a copy of a letter that may be forwarded to Centrelink confirming the unit price as at 31 December 2014, and which may be used by investors to assist with the review of their pensions.

7. Distributions to Investors

As previously advised, I am on notice from KordaMentha that the MPF potentially have a breach of trust claim against the Fund. In addition, the Receivers and Managers who were appointed to Bellpac have put me on notice not to distribute funds until the proceedings mentioned at section 3.2.2 above are resolved and also due to the MPF position, the secured creditor has not yet released its charge or retired its Receivers.

Once the Receivers and Managers have retired and funds released to me, I will be required to retain certain funds to meet the liabilities of the Fund, including contingent claims that may arise from the Bellpac litigation, the funds received for the loan/lease agreements of the aged care facilities (which totals approximately \$12 million) and potentially in relation to the KordaMentha claims.

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

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

8. Fees claimed by LM Investment Management Ltd (In Liquidation) ("LMIM") (by its liquidators, FTI Consulting)

The liquidators of LMIM, Mr Park and Ms Muller, have submitted invoices from LMIM, made out to the Fund, totalling \$3,265,742 excluding GST for payment in relation to their remuneration and out of pocket expenses for the period from 19 March 2013 to 30 June 2014.

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

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

	Paid to date (GST exclusive) \$	Outstanding (GST exclusive) \$
Direct time charged to work undertaken for the Fund - including outlays (category 1)		1,742,674
Allocation of Responsible Entity time (category 2)		1,174,678
Time charged in respect of the Controllerships (category 3) (19 March 2013 to 31 December 2013)	181,112	
Time charged in respect of the Controllerships (category 3) (1 January 2014 to 24 September 2014)		62,505
Operational and loan recovery costs		285,885
	181,112	3,265,742

As previously advised, both McGrathNicol and I have raised legal questions as to whether certain work done by the liquidators of LMIM can properly be charged to the Fund, as well as questions as to the quantum claimed. As a result of these issues, I have met with FTI to discuss certain aspects of their claim and we are currently in the process of agreeing a framework for determining their claim. It is proposed that directions are sought from the Court as to their entitlement to claim under various categories and that their claim be reviewed and adjudicated on by an independent expert.

Prior to the application being made to the court for directions, FTI have advised that they would wish the court to clarify any ongoing role the responsible entity may have and the residual powers they may have as a result of my appointment. This application is presently being prepared by FTI's solicitors.

9. Management Accounts

The management accounts for the year ending 30 June 2014 are now available on the website www.lmfimf.com.

I am currently preparing the management accounts for the half year ending 31 December 2014. These accounts will be prepared in accordance with the relevant accounting standards and will be posted on the website www.lmfimif.com when finalised.

10. Western Union

It has been brought to my attention that a number of the payments in respect of capital distributions to overseas investors in March 2013 were retained by Western Union and not forwarded to the intended recipients.

I am currently in discussions with Western Union regarding the release of these monies.

11. Ongoing Reporting to Investors

Reports will be distributed to investors in accordance with the preferred method of correspondence recorded for each investor on the Fund's database. In order to assist in reducing distribution costs, it would be appreciated if as many investors as possible could provide an email address in this respect. Please use the details in section 12 below to advise us in this regard.

My next report to investors will be issued by 30 April 2015.

12. Receiver's Remuneration and Expenses

As previously advised, an application was made to Court on 7 November 2014 for approval of my remuneration for the period from 1 April 2014 to 30 September 2014. The hearing in this respect took place on 27 November 2014. The court approved the remuneration sought of \$1,005,948.35 (inclusive of GST) in respect of work undertaken in dealing with FMIF during the period from 1 April 2014 to 30 September 2014. In addition, the court approved the remuneration sought of \$7,000.95 in respect of the work undertaken on the six controllerships relating to the retirement villages during the period from 25 September 2014 to 30 September 2014.

In addition to the remuneration for the above court application, I have incurred further remuneration of \$926,767.50 plus outlays of \$11,001.23 plus GST for the period from 1 October 2014 to 23 January 2015 including work undertaken in respect of the controllerships for the retirement village assets of \$157,212.50 as detailed in the table below and attached summaries.

	Remuneration (GST exclusive) \$	Outlays (GST exclusive) \$
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	769,555.00	7,231.97
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	35,495.50	827.63
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	35,069.50	1,467.93
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	26,039.00	22.84
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	31,981.50	1,428.02
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	3,698.50	0.56
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed) (Controllers Appointed)	24,928.50	22.28
	926,767.50	11,001.23

I will apply to the Court for approval of this remuneration in due course and will advise investors accordingly.

13. Queries

Should unit holders wish to advise of any changes in details or require further information, please contact BDO as follows:

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
Receiver

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015
LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed)

Employee	Position	Totals		Task Area												
		Rate	hrs	\$	Assets		Creditors		Employees		Trade On		Investigations		Administration	
			hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
Angie Hicks	Partner	600	1.0	600.00	1.0	600.00			0.2	112.00	80.2	44,912.00	13.3	7,448.00	37.1	20,776.00
David Whyte	Partner	560	214.6	120,176.00	77.4	43,344.00	6.4	3,584.00							1.3	728.00
Andrew Fielding	Partner	560	1.3	728.00												
Steven Sorbello	Partner	545	0.8	436.00	0.8	436.00										
Eric Leeuwendal	Director	495	314.1	155,479.50	64.9	32,125.50	10.7	5,296.50			2.6	1,287.00	148.5	73,507.50	87.4	43,263.00
Craig Jenkins	Partner	485	4.0	1,940.00	4.0	1,940.00										
Sharnie Mitchell	Senior Manager	475	0.7	332.50	0.7	332.50										
Margaux Beauchamp	Associate	470	207.8	97,290.00	207.0	97,290.00										
John Somerville	Senior Manager	440	146.7	64,548.00	91.0	40,040.00	0.7	308.00			37.7	16,588.00			17.3	7,612.00
Charles Haines	Senior Manager	440	1.8	792.00											1.8	792.00
Joanne Garcia	Manager	400	382.6	153,040.00	26.9	10,760.00	35.3	14,120.00	0.1	40.00	246.3	98,520.00	3.6	1,440.00	70.4	28,160.00
Michelle Matchett	Associate	390	20.7	8,073.00	20.7	8,073.00										
Julie Pagcu	Senior Manager	365	3.0	1,095.00	3.0	1,095.00										
Ashleigh Simpson-Wade	Supervisor	360	0.4	144.00					0.2	72.00					0.2	72.00
Daniel Tipman	Supervisor	360	30.2	10,872.00	0.6	216.00	14.5	5,220.00			15.1	5,436.00				
Julie Pagcu	Senior Manager	360	46.5	16,740.00	46.5	16,740.00										
Michael Dharmaratne	Supervisor	360	0.1	36.00			0.1	36.00								
Michael Dharmaratne	Supervisor	320	9.0	2,880.00	0.3	96.00	6.5	2,080.00							2.2	704.00
Daniel Tipman	Supervisor	320	54.5	17,440.00	1.5	480.00	32.2	10,304.00			10.1	3,232.00	0.3	96.00	10.4	3,328.00

Employee	Position	Rate	Totals		Task Area											
			hrs	\$	Assets		Creditors		Employees		Trade On		Investigations		Administration	
			hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
Naomi Rowsome	Supervisor	310	2.5	775.00	2.5	775.00										
Mia Russo	Supervisor	280	0.8	224.00	0.8	224.00										
Nicola Kennedy	Accountant I	225	52.9	11,902.50	1.6	360.00	12.8	2,880.00	2.0	450.00	6.8	1,530.00	0.8	180.00	28.9	6,502.50
Rycko Taniran	Senior Accountant II	200	46.1	9,220.00	46.1	9,220.00										
Pei Wun Han	Accountant I	200	1.1	220.00	1.1	220.00										
Dermot O'Brien	Account II	195	112.0	21,840.00	0.8	156.00	1.4	273.00							107.8	21,021.00
Sarah Cunningham	Team Assistant	195	3.0	585.00	0.4	78.00										
Pei Wun Han	Accountant I	185	156.4	28,934.00	156.4	28,934.00										
Dale Ludwig	Accountant I	185	227.5	42,087.50	227.5	42,087.50										
Owen Loneragan	Accountant I	185	0.8	148.00	0.8	148.00										
Nicole Jackson	Team Assistant	155	1.2	186.00			1.2	186.00								
Bodie Smith	Accountant II	145	1.6	232.00	1.6	232.00										
Sharon Aranha	Secretary	130	1.9	247.00	1.9	247.00										
Maira Hattingh	Team Assistant	80	3.9	312.00											3.9	312.00
TOTALS			2,051.5	769,555.00	987.8	336,249.50	121.8	44,287.50	2.5	674.00	403.4	172,402.00	166.5	82,671.50	368.7	133,270.50
			GST													
			TOTAL INC GST													
			AVERAGE HOURLY RATE													
				375		340	364	270		427	497					361

Disbursements for the period 1 October 2014 to 23 January 2015	
LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed)	
Expense Type	Amount (\$ ex GST)
Photocopy	105.60
Parking	358.64
Search Fee	176.10
Mileage	866.80
Postage	5,724.83
TOTAL	7,231.97
GST	723.20
TOTAL INC GST	7,955.17

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015

OVST Pty Ltd (In Liquidation) (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area									
			hrs	\$	Assets	Creditors	Employees	Trade On	Investigations	Administration	hrs	\$	hrs	\$
David Whyte	Partner	560	12.1	6,776.00	8.0	4,480.00	0.2	112.00	3.8	2,128.00	0.1	56.00	0.6	264.00
John Somerville	Senior Manager	440	28.2	12,408.00	24.0	10,560.00	0.3	132.00	3.3	1,452.00			0.8	320.00
Joanne Garcia	Manager	400	10.2	4,080.00	0.8	320.00			8.6	3,440.00	0.1	36.00	0.1	36.00
Ashleigh Simpson-Wade	Supervisor	360	0.2	72.00					0.3	108.00			0.1	36.00
Daniel Tipman	Supervisor	360	0.4	144.00					2.1	672.00			0.3	96.00
Daniel Tipman	Supervisor	320	6.3	2,016.00	2.8	896.00	0.7	224.00	6.7	1,507.50			8.4	1,890.00
Nicola Kennedy	Accountant I	225	20.3	4,567.50	2.5	562.50	0.2	45.00	16.0	3,120.00			0.6	117.00
Sarah Cunningham	Team Assistant	195	16.6	3,237.00									10.6	2,067.00
Dermot O'Brien	Undergraduate	195	10.6	2,067.00									1.6	128.00
Moira Hattingh	Team Assistant	80	1.6	128.00									23.1	4,954.00
TOTALS			106.5	35,495.50	38.1	16,818.50	1.2	401.00	40.8	12,427.50	0.2	92.00		
			GST	3,549.55										
TOTAL INC GST				39,045.05										
AVERAGE HOURLY RATE				333	441	334	259	305	460	214				

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 23 January 2015 OVST Pty Ltd (In Liquidation) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Search Fee	825.95
Postage	1.68
TOTAL	827.63
GST	82.76
TOTAL INC GS*	910.39

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 22 January 2015

Redland Bay Leisure Life Development Pty Ltd (In Liquidation) (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area					
			hrs	\$	Assets	Creditors	Employees	Trade On	Administration	\$
David Whyte	Partner	560	0.2	112.00	0.1	56.00		0.1	56.00	
Joanne Garcia	Manager	400	0.8	320.00						
Ashleigh Simpson-Wade	Supervisor	360	0.1	36.00						
Daniel Tipman	Supervisor	320	3.8	1,216.00	1.0	320.00	0.5	160.00		
Nicola Kennedy	Accountant I	225	3.8	855.00						
Dermot O'Brien	Undergraduate	195	5.4	1,053.00			0.8	156.00		
Sarah Cunningham	Team Assistant	195	0.3	58.50						
Maira Hattingh	Team Assistant	80	0.6	48.00				0.2	39.00	
TOTALS			15.0	3,698.50	1.1	376.00	0.5	160.00	1.5	422.00
			GST	369.85						
TOTAL INC GST				4,068.35						
AVERAGE HOURLY RATE				247	342	320	195	281		233

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 22 January 2015	
Redland Bay Leisure Life Development Pty Ltd (In Liquidation) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Postage	0.56
TOTAL	0.56
GST	0.06
TOTAL INC GS*	0.62

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers and Managers Appointed) (Controllors Appointed)

Employee	Position	Rate	Totals		Task Area					
			hrs	\$	Assets		Creditors		Trade On	
					hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	560	8.7	4,872.00	6.7	3,752.00			1.6	896.00
John Somerville	Senior Manager	440	20.0	8,800.00	16.8	7,392.00			3.0	1,320.00
Joanne Garcia	Manager	400	4.9	1,960.00	0.5	200.00			3.5	1,400.00
Daniel Tipman	Supervisor	360	1.1	396.00	0.5	180.00	0.4	144.00		
Daniel Tipman	Supervisor	320	9.9	3,168.00	3.5	1,120.00	1.0	320.00	2.4	768.00
Nicola Kennedy	Accountant I	225	12.0	2,700.00	1.1	247.50			2.1	472.50
Sarah Cunningham	Team Assistant	195	13.7	2,671.50					13.0	2,535.00
Dermot O'Brien	Undergraduate	195	1.4	273.00						
Maira Hattingh	Team Assistant	80	1.1	88.00	0.2	16.00				
TOTALS			72.8	24,928.50	29.3	12,907.50	1.4	464.00	25.6	7,391.50
			GST							
					2,492.85					
TOTAL INC GST					27,421.35					
AVERAGE HOURLY RATE			342		441		331		289	
									252	

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 23 January 2015 Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers and Managers Appointed) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Search Fee	20.60
Postage	1.68
TOTAL	22.28
GST	2.23
TOTAL INC GST	24.51

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015

Bridgewater Lake Estate Pty Limited (In Liquidation) (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area									
			hrs	\$	Assets		Creditors		Employees		Trade On		Administration	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	560	11.1	6,216.00	8.6	4,816.00	0.6	336.00			1.9	1,064.00		
John Somerville	Senior Manager	440	17.4	7,656.00	15.2	6,688.00	0.3	132.00			1.6	704.00	0.3	132.00
Joanne Garcia	Manager	400	9.0	3,600.00	0.2	80.00					7.7	3,080.00	1.1	440.00
Chris Demeyere	Supervisor	360	0.3	108.00							0.3	108.00		
Daniel Tipman	Supervisor	360	0.3	108.00							0.3	108.00		
Daniel Tipman	Supervisor	320	5.5	1,760.00	0.6	192.00	1.6	512.00			3.3	1,056.00		
Nicola Kennedy	Accountant I	225	9.8	2,205.00	1.8	405.00			0.1	22.50	3.2	720.00	4.7	1,057.50
Sarah Cunningham	Team Assistant	195	19.0	3,705.00							17.7	3,451.50	1.3	253.50
Dermot O'Brien	Undergraduate	195	3.0	585.00									3.0	585.00
Maira Hattingh	Team Assistant	80	1.2	96.00									1.2	96.00
TOTALS			76.6	26,039.00	26.4	12,181.00	2.5	980.00	0.1	22.50	36.0	10,291.50	11.6	2,564.00
			GST		2,603.90									
			TOTAL INC GST		28,642.90									
AVERAGE HOURLY RATE			340		461		392		225		286		221	

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 23 January 2015 Bridgewater Lake Estate Pty Limited (In Liquidation) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Postage	2.24
Search Fee	20.60
TOTAL	22.84
GST	2.28
TOTAL INC GST	25.12

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area							
			hrs	\$	Assets		Creditors		Employees		Trade On	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	560	14.1	7,896.00	8.5	4,760.00	0.2	112.00	0.1	56.00	5.3	2,968.00
John Somerville	Senior Manager	440	26.7	11,748.00	23.6	10,384.00	0.4	176.00			2.7	1,188.00
Joanne Garcia	Manager	400	11.4	4,560.00	0.8	320.00					9.5	3,800.00
Ashleigh Simpson-Wade	Supervisor	360	0.1	36.00								
Daniel Tipman	Supervisor	360	0.1	36.00			0.1	36.00				
Daniel Tipman	Supervisor	320	6.1	1,952.00	4.8	1,536.00					0.2	64.00
Nicola Kennedy	Accountant I	225	20.2	4,545.00	2.4	540.00			0.9	202.50	7.0	1,575.00
Sarah Cunningham	Team Assistant	195	16.2	3,159.00							15.3	2,983.50
Dermot O'Brien	Undergraduate	195	5.3	1,033.50								
Moirra Hattingh	Team Assistant	80	1.3	104.00								
TOTALS			101.5	35,069.50	40.1	17,540.00	0.7	324.00	1.0	258.50	40.0	12,578.50
			GST	3,506.95								
TOTAL INC GST				38,576.45								
AVERAGE HOURLY RATE				346		437		463		259		314
												222

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 23 January 2015 Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Search Fee	1,466.25
Postage	1.68
TOTAL	1,467.93
GST	146.79
TOTAL INC GS*	1,614.72

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 October 2014 to 23 January 2015
Redland Bay Leisure Life Pty Ltd (In Liquidation) (Controllors Appointed)

Employee	Position	Rate	Totals		Task Area									
			hrs	\$	Assets		Creditors		Employees		Trade On		Administration	
David Whyte	Partner	560	20.2	11,312.00	16.0	8,960.00					3.9	2,184.00	0.3	168.00
Andrew Fielding	Partner	560	0.1	56.00									0.1	56.00
John Somerville	Senior Manager	440	22.5	9,900.00	19.7	8,668.00					2.4	1,056.00		
Joanne Garcia	Manager	400	9.1	3,640.00	1.3	520.00		0.4	176.00		7.0	2,800.00		
Ashleigh Simpson-Wade	Supervisor	360	0.1	36.00									0.8	320.00
Nicola Kennedy	Accountant I	225	15.7	3,532.50	3.3	742.50				0.8	180.00		0.1	36.00
Sarah Cunningham	Team Assistant	195	15.8	3,081.00								1,282.50	5.9	1,327.50
Dermot O'Brien	Undergraduate	195	1.6	312.00								2,964.00	0.6	117.00
Moirra Hattinagh	Team Assistant	80	1.4	112.00									1.6	312.00
TOTALS			86.5	31,981.50	40.3	18,890.50	0.4	176.00	0.8	180.00	34.2	10,286.50	10.8	2,448.50
			GST		3,198.15									
TOTAL INC			GST		35,179.65									
AVERAGE HOURLY RATE			370		469		440		225		301		227	

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 October 2014 to 23 January 2015	
Redland Bay Leisure Life Pty Ltd (In Liquidation) (Controllers Appointed)	
Expense Type	Amount (\$ ex GST)
Search Fee	1,426.90
Postage	1.12
TOTAL	1,428.02
GST	142.80
TOTAL INC GST	1,570.82

TO WHOM IT MAY CONCERN

30 January 2015

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

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

I provide an update on the estimated unit price of the fund as at 31 December 2014, calculated as follows:

	\$000's
Total Value of Fund Assets as at 31 December 2014 (net of land tax and rates)	89,776
Less Creditors and Other Payables	(13,690)
Total Net Value of Fund Assets	76,086
Total Number of Units as at 31 December 2014	478,274
Unit Price	0.16

Should you have any queries in respect of the above, please contact Nicola Kennedy of my office on (07) 3237 5785.

Yours faithfully,



David Whyte
Receiver