

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk concentrations of credit risk

Concentrations of credit risk are managed by counterparty and by geographical region. The percentage of loans secured by property in different geographical locations is as follows:

	2011	2010
Within 40km of Sydney CBD	1.85%	2.53%
New South Wales – Other	17.42%	26.30%
Within 40km of Melbourne CBD	4.34%	3.56%
Victoria – Other	-	2.68%
Queensland – Other	65.83%	55.99%
Canberra – Other	1.56%	1.39%
Western Australia	8.18%	6.92%
Tasmania	0.82%	0.63%
	100.00%	100.00%

The maximum credit risk exposure at year end in relation to mortgage loan is the carrying value of the assets as indicated in the Statement of Financial Position.

The Scheme has a concentration of credit risk relating to the derivative instruments as all foreign currency swaps are entered into with the same counterparties.

Credit quality of mortgage loans

The credit quality of financial assets is managed by the Scheme using internal risk rating categories in accordance with the investment mandate of the Scheme. The Scheme's exposure in each category is monitored on a daily basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action.

As at 30 June 2011, the Scheme was mortgage in possession of security relating to loans in default of \$405.2 million (2010: \$332.9 million) and had taken possession of assets offered as collateral security valued at \$415.2 million (2010: \$401 million).

c) Liquidity risk

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unitholder redemptions.

The nature of the investments entered into by the Scheme commands that liquidity be managed cautiously and aligned to the redemptions policy outlined within the constitution of the Scheme. At 30 June 2011, the redemptions requested from unitholders but not paid was \$144,181,702 (2010: \$153,456,231). An additional \$147,917,267 (2010: \$154,839,212) of redemptions had been requested by unitholders of the feeder funds – refer to Note 6.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

c) Liquidity risk (Continued)

During the 2009 year, the Responsible Entity closed the Scheme to new investors and suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for distributions and expenses. Feeder funds are other registered managed investment schemes that have invested directly in the LM First Mortgage Income Fund. Redemptions are generally to be paid within 365 days of the investment maturity term, however, redemptions have been suspended, per the constitution, as the Responsible Entity considers the suspension of withdrawals to be in the best interest of the members of the Scheme.

As at 16 September 2011, \$143,683,209 of redemptions had been requested by unitholders but not yet paid. Redemptions also rank behind repayment of external financing facilities as detailed in Note 2(a).

The Responsible Entity employs risk management strategies to ensure that the Scheme is able to meet its obligations as above. The liquidity risk associated with the need to satisfy unitholders requests for redemptions are mitigated by offering fixed term investment periods for investors and by maintaining sufficient cash funds to satisfy usual levels of demand for at-call investments.

In order to minimise liquidity risk, management assesses and monitors the liquidity requirements of both unitholder redemptions and investment activities and ensures that at all times the Scheme has adequate cash and cash equivalents to cover fund obligations and that liquidity is managed within the Scheme's policies and limits.

Maturity Analysis of Financial Liabilities

Financial liabilities of the Scheme comprise trade and other payables, distributions payable, net assets attributable to unitholders, fair value of foreign exchange contracts and the secured bank loan. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days. Foreign exchange contracts mature within 12 months of year end.

Net assets attributable to unitholders mature over the following periods:

Period from 30 June 2011	Value
Due and payable*	144,181,702
< 12 months	299,131,116
12-24 months	7,161,251
24-36 months	617,873
36-48 months	678,545
>48 months	-
Total	451,770,487

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

* This balance represents redemptions requested but not paid at 30 June 2011 of \$292,791,534 (2010: \$155,401,717).

The secured bank loan is repayable by 30 June 2012, as detailed in Note 2(a) and 10. When drawn, the loan is secured by the assets of the Scheme.

d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis.

The Scheme's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities is set out below:

LM FIRST MORTGAGE INCOME FUND
Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

SCHEME

	Note	Weighted average interest rate		Floating Interest Rate		Fixed interest rate		Total
		2011 %	2010 %	2011	2010	Securities contracted to mature in less than 1 year	Securities contracted to mature in more than 1 year but less than 5 years	
Cash and cash equivalents	13(a)	4.02	3.57	18,475,447	1,976,709	-	-	18,475,447
Secured mortgage loans (gross)	8	6.61	9.36	-	-	19,214,651	-	19,214,651
Unsecured loan	8	10.0	10.0	-	-	1,829,700	-	1,829,700
Loan facility	10	16.82	9.39	-	(81,014,217)	(62,399,788)	-	(81,014,217)
Total				18,475,447	(79,037,508)	(54,550,184)	11,365,047	(57,993,157)

All other financial assets and liabilities are non-interest bearing.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following table demonstrates the sensitivity of the Scheme's Statement of Comprehensive Income to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on the interest income for one year, based on the financial instruments held at 30 June 2011.

Accounting assumptions

The basis points sensitivity is based on the historical volatility of changes in interest rates.

2011

	Change in basis points		Sensitivity of interest income (\$'000's)	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
Financial Instruments	50	50	2,700	2,700
	100	100	5,401	5,401

2010

	Change in basis points		Sensitivity of interest income (\$'000's)	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
Financial instruments	50	50	2,825	2,825
	100	100	5,650	5,650

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Scheme enters into foreign exchange contracts principally to hedge the foreign exchange risk implicit in the value of the investor funds denominated in foreign currencies and to secure a particular exchange rate for a planned purchase or sale of investments. The term of the contracts rarely exceeds twelve months.

The fair value of forward exchange contracts held at 30 June 2011 was \$33,691 (2010: \$17,451).

The nominal Australian dollar value of forward exchange contracts held at 30 June 2011 was \$10,570,860 (2010: \$10,266,314).

The table below indicates the currencies to which the Scheme had significant exposure at 30 June 2011 on its monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian Dollar on the Statement of Comprehensive Income, with all other variables held constant.

Foreign currency

Investments in the fund are hedged in the relevant currency against Australian dollar currency movements. The fund manages foreign currency risk through the use of forward foreign exchange contracts (FFEC).

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The FFECs are facilitated by several banking firms. This reduces currency exposure to the fund and investors. The below table is only applicable if the FFEC facilitator is unable to meet its obligation and the fund therefore seeks an alternative party to transact the FFEC.

Accounting Assumptions- Variability of foreign currency

The sensitivity is based on the volatility of changes in global currency.

Currency	AUD equivalent in exposure by currency (000's)	2011			
		Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
CAD	5	10	10	0	1
EUR	1,376	10	10	125	153
GBP	1,889	10	10	172	210
HKD	903	10	10	90	90
JPY	-	10	10	-	-
NZD	4,652	10	10	443	493
SGD	196	10	10	18	22
THB	29	10	10	3	3
TRY	146	10	10	13	16
USD	1,375	10	10	127	150

Currency	AUD equivalent in exposure by currency (000's)	2010			
		Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
CAD	14	10	10	1	2
EUR	1,432	10	10	130	159
GBP	2,139	10	10	194	238
HKD	8	10	10	1	1
JPY	140	10	10	13	16
NZD	4,720	10	10	445	505
SGD	212	10	10	19	24
THB	33	10	10	3	4
TRY	187	10	10	17	21
USD	1,381	10	10	126	153

Equity Risk

The Scheme is not subject to equity risk at 30 June 2011.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Scheme's financial assets and liabilities included in the Statement of Financial Position are carried at their fair value as disclosed by class of financial instruments or at amounts that approximate their fair values.

Refer to Note 2 for the methods and assumptions adopted in determining fair values for investments.

Disclosed below is the fair value of the Scheme's financial instruments.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Fair value: The Scheme uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets;

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

	Fair Value				Carrying Amount
2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	\$
Financial Assets					
Forward currency contracts	-	33,691	-	33,691	33,691
Total Financial Assets	-	33,691	-	33,691	33,691
Financial Liabilities					
Forward currency contracts	-	-	-	-	-
Total Financial Liabilities	-	-	-	-	-

	Fair Value				Carrying Amount
2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	\$
Financial Assets					
Forward currency contracts	-	17,451	-	17,451	17,451
Total Financial Assets	-	17,451	-	17,451	17,451
Financial Liabilities					
Forward currency contracts	-	-	-	-	-
Total Financial Liabilities	-	-	-	-	-

The fair values of currency exchange contracts (forwards and swaps) are calculated by reference to current exchange rates for contracts with similar maturity and risk profiles.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2011

17. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets and liabilities or commitments as at 30 June 2011

18. EVENTS AFTER THE STATEMENT OF BALANCE DATE

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2011 or on the results and cash flows of the Scheme for the year ended on that date, other than those detailed below:

(a) Status of distributions payable

As at 30 June 2011, \$6,289,306 of distributions payable related to distributions that were required to be paid under the Scheme's Constitution prior to 30 June 2011. In addition, \$5,384,075 of distributions payable as at 16 September 2011 that were required to be paid under the Scheme's Constitution remain payable. These distributions relate to the months of March 2010 to December 2010. Since year end, \$1,039,826 in distributions payable has been paid relating distributions accrued for the month of February and March 2010 (see to Note 3).

LM FIRST MORTGAGE INCOME FUND

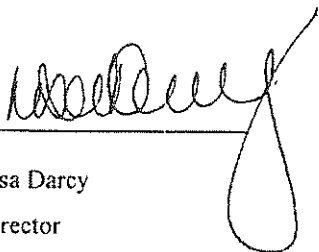
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

- a) The financial statements and notes of the Registered Scheme set out on pages 8 to 50 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the Corporation Regulations 2001; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2011, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
 - (iii) the financial statements and notes to the financial statements are prepared in compliance with the International Financial Reporting Standards as made by the International Accounting Standards Board.
- b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

On behalf of the Board

LM Investment Management Limited.



Lisa Darcy

Director

Gold Coast

16 September 2011



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Independent auditor's report to the unitholders of LM First Mortgage Income Fund

Report on the Financial Report

We have audited the accompanying financial report of LM First Mortgage Income Fund ('the Scheme'), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the responsible entity of the Scheme are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the unitholders.

The directors' responsibility also includes such internal controls as the directors determine are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



Opinion

In our opinion:

- a. the financial report of LM First Mortgage Income Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the Scheme's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Ernst & Young

Ernst & Young

P McLuskie

Paula McLuskie
Partner
Brisbane
16 September 2011



LM Investment Management Ltd

The global pathway to Australian investment solutions

APN 610 772 004 461 Responsible Entity & AFSL No. 220261

LM First Mortgage Income Fund

ANNUAL FINANCIAL REPORT | 30 June 2012

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LM FIRST MORTGAGE INCOME FUND

ABN: 66 482 247 488

Annual Report

For the year ended 30 June 2012

LM FIRST MORTGAGE INCOME FUND

ABN: 66 482 247 488

Annual Report – 30 June 2012

Contents

DIRECTORS' REPORT.....	3
AUDITOR'S INDEPENDENCE DECLARATION.....	7
STATEMENT OF COMPREHENSIVE INCOME.....	8
STATEMENT OF FINANCIAL POSITION.....	9
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	10
STATEMENT OF CASH FLOWS.....	11
NOTES TO THE FINANCIAL STATEMENTS	12
DIRECTORS' DECLARATION.....	47
INDEPENDENT AUDIT REPORT	48

The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited (ABN 68 077 208 461). The Responsible Entity's registered office is Level 4, RSL Building, 9 Beach Road, Surfers Paradise QLD 4217.

LM FIRST MORTGAGE INCOME FUND

Directors' Report

DIRECTORS' REPORT

The directors of LM Investment Management Limited, the Responsible Entity of the LM First Mortgage Income Fund, present their report of the LM First Mortgage Income Fund ("the Scheme") for the year ended 30 June 2012. The directors' report is not part of the financial report.

DIRECTORS

The following persons held office as directors of LM Investment Management Limited, during the year or since the end of the year and up to the date of this report:

Name	
Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003 – Resigned 21 June 2012
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006
Mr John O'Sullivan	Appointed 27 November 2007 – Resigned 12 August 2012
Mr Simon Tickner	Appointed 18 September 2008 – Resigned 13 July 2012
Mr Grant Fischer	Appointed 14 March 2012 – Resigned 12 August 2012
Ms Katherine Phillips	Appointed 13 July 2012

PRINCIPAL ACTIVITIES

During the year, the Scheme continued the principal activity of investing unitholders' funds in existing registered mortgages and cash investments in Australia in accordance with the Scheme's Constitution and in accordance with the investment policy of the Scheme as outlined in the current product disclosure document.

There were no significant changes in the nature of the Scheme's activities during the year.

The Scheme did not have any employees during the year.

SCHEME INFORMATION

The Scheme is an Australian registered scheme and was constituted on 13 April 1999. The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited ("LM"), which has been the Responsible Entity since registration of the Scheme.

The registered office and principal place of business of the Responsible Entity and the Scheme is Level 4, 9 Beach Road, Surfers Paradise, Queensland.

REVIEW OF RESULTS AND OPERATIONS

Results

Since the closure of the fund in 2009, the Responsible Entity's prime focus has been to see the repayment of all loans to create the cash flow required to effect the progressive repayment of the fund's line of credit facility and to realise distribution of capital for investors. The Responsible Entity has followed this strategy, avoiding a fire sale of assets and managing and maintaining assets for best value outcomes when ultimately sold.

The financial crisis and market factors saw the fund close and at that time LM's prime focus was to seek repayment of the fund's loan from its borrowers at their respective maturity dates. Due to general liquidity constraints in the market the majority of borrowers defaulted at maturity when unable to repay the loan, and on behalf of the fund, LM took possession of the collateral over which the loan was secured to protect investor interests.

LM FIRST MORTGAGE INCOME FUND

Directors' Report

LM has managed an orderly asset sales process since the fund's closure. When it closed, there were 55 loan assets. Since that time 28 of loans have been repaid through an ongoing asset sales process. LM is driving the orderly sale of the remaining 27 number of loans.

The original credit facility balance was \$133 million at time of closure. The current Deutsche Bank credit facility balance is now \$29.4 million. Since the fund closed, LM has managed a total credit facility reduction of \$103.6 million.

The nature of all the properties in which the fund enforced its rights to security was varied in terms of sector type and the loans provided a broadly diversified geographic exposure across the Australian property market.

Since the fund closed, LM has completed significant work on assets to bring them to a point of sale, ensuring value by: attending to general maintenance and presentation of the properties for sale, completing works to enhance longer term value, obtaining relevant development and or building approvals to increase property value and entering into presales marketing campaigns where benefit existed in completing further staged development work on various properties.

Since the fund's closure the Responsible Entity considered different strategies to realise best outcomes for investors, including that of offering investors the choice of selling or holding their investment.

In this reporting period, the Responsible Entity has sought further feedback from investors in this regard and has announced that the fund will not re-open. The Responsible Entity is driving a continual orderly sell down of all remaining assets to see the recommencement of capital distributions to investors as quickly as possible. All investors will share pro-rata in capital distributions as the sales progress.

In addition, the Responsible Entity has announced that as the work of bringing the assets to the point of sale is completed, it will be returning to its historic fee levels, capping the management fee at 1.5% pa.

Approved investor hardship withdrawals will continue as the sales proceed.

In assessing sales prices for assets in today's market, contemplating the sales of all remaining assets, the directors have taken additional provisions resulting in a unit value of 59 cents as at 16 November 2012. We note that the market value at the future point of asset sale will determine the unit value ultimately realised as investors receive progressive capital distributions.

The change in net assets attributable to the unitholders of the Scheme is presented in the Statement of Comprehensive Income. Net loss attributable to unitholders for the year ended 30 June 2012 was \$88,615,577 (2011: loss of \$77,418,896).

Distributions to unitholders declared during the year totalled \$17,024,389 (2011: \$14,295,925).

Total assets under management were \$343,976,757 as at 30 June 2012 (2011: \$454,724,799). Investor funds under management decreased during the year by \$93,206,695 (2011: decreased by \$104,824,211). Funds under management invested by related managed investment schemes in LM FMIF increased by \$14,484,434 (2011: decreased by \$13,222,693) to \$224,862,439 (2011: \$210,378,005).

LM FIRST MORTGAGE INCOME FUND

Directors' Report

The performance of the Scheme, as represented by the results of its operations, was as follows:

	30 June 2012	30 June 2011
	\$	\$
Net operating income/(loss) before distributions	(88,615,577)	(77,418,896)
Financing costs: Distributions to unitholders	(17,024,389)	(14,295,925)
(Increase) / decrease in net assets attributable to unitholders	105,639,966	91,714,821

UNITHOLDER FUNDS

There were 488,787,330 units on issue at 30 June 2012 (2011: 476,355,743). During the year 18,971,927 of units were Issued by the Scheme (2011: 12,180,254) and 6,666,198 of units were withdrawn (2011: 24,218,932).

SCHEME ASSETS

At 30 June 2012, the Scheme held assets to a total value of \$343,976,757 (2011: \$454,724,799). The basis for valuation of assets is disclosed in Note 2 to the financial statements.

FEES PAID TO AND INTEREST HELD BY THE RESPONSIBLE ENTITY AND ASSOCIATED COMPANIES

The following fees were paid to LM Investment Management Limited and its associated companies out of Scheme property during the financial year, for funds management and administrative services provided on behalf of the Responsible Entity:

	2012	2011
	\$	\$
• Management fees paid or payable directly to LM Administration Pty Ltd	9,103,864	10,997,188
• Expenses incurred by the Responsible Entity and its associated entities which are reimbursed in accordance with the provisions of the Scheme's Constitution, including administration and custodian fees	29,983	791,164
• Expenses including administration expenses incurred by the Responsible Entity and its associated entities, which are not reimbursed	38,524	-
• Loan management fees paid to the Responsible Entity for loan management and receivership services provided by the Responsible Entity on behalf of the Scheme in replacement of appointing external receivers. These fees are charged directly to the borrower to facilitate future possible recovery.	4,817,414	5,381,516

The Responsible Entity will be returning to its low historic fee levels, capping the management fee at 1.5% pa, as of 1 November 2012.

The interests in the Scheme held by the Responsible Entity and its associates as the end of the year are disclosed in Note 10 to the financial statements.

LM FIRST MORTGAGE INCOME FUND

Directors' Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the financial year under review that are not otherwise disclosed in this report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than the matters disclosed in Note 18 of the financial report there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may affect, the Scheme's operations in future financial years, the results of those operations of the Scheme's state of affairs in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Further information on likely developments in the operation of the Scheme and the expected results of those operations has not been included in this report because the Responsible Entity believes it would likely result in unreasonable prejudice to the Scheme.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of the Scheme are not subject to any particular or significant environmental regulations under a law of the Commonwealth or a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

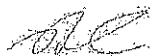
INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of LM Investment Management Limited or the auditors of the Scheme. Provided the officers of LM Investment Management Limited act in accordance with the Scheme Constitution and the Law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

AUDITOR'S INDEPENDENCE DECLARATION

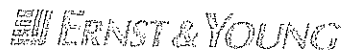
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the Directors of LM Investment Management Limited.



Peter Drake
Director
Gold Coast

16 November 2012



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**Auditor's Independence Declaration to the Directors of LM Investment
Management Limited as Responsible Entity for LM First Mortgage
Income Fund**

In relation to our audit of the financial report of LM First Mortgage Income Fund for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Paula McLuskie

Paula McLuskie
Partner
Brisbane
16 November 2012

LIV FIRST MORTGAGE INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Note	30 June 2012 \$	30 June 2011 \$
Income			
Interest revenue – mortgage loans		31,608,319	35,604,341
Interest revenue – cash assets		420,812	162,848
Realised foreign exchange gain on investor funds		69,271	37,375
Unrealised foreign exchange gain on investor funds		-	1,134,069
Unrealised foreign exchange gain on foreign exchange contracts		-	16,240
Total revenue and other income		32,098,402	36,954,873
Expenses			
Management fees	11	9,103,864	10,997,188
Finance costs	4(a)	8,593,798	14,072,789
Custodian fees		77,904	112,324
Advisor commissions		2,165,236	2,090,475
Impairment losses on mortgage loans	7(e)	99,144,122	84,873,703
Unrealised foreign exchange losses on investor fund		167,394	-
Unrealised foreign exchange loss on foreign exchange contracts		145,432	-
Realised loss on foreign exchange contracts		36,203	1,338,500
Legal fees		523,012	407,260
Other expenses	4(b)	757,014	481,530
Total expenses excluding distributions to unitholders		120,713,979	114,373,769
Net (loss) before distributions to unitholders		(88,615,577)	(77,418,896)
Distributions paid/payable to unitholders	3(a)	(17,024,389)	(14,295,925)
Net (loss) after distributions to unitholders		(105,639,966)	(91,714,821)
Other comprehensive income		-	-
Net loss after distributions to unitholders		(105,639,966)	(91,714,821)
Income tax expense		-	-
Changes in net assets attributable to unitholders after income tax expense		(105,639,966)	(91,714,821)

LM FIRST MORTGAGE INCOME FUND

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		30 June 2012	30 June 2011
		\$	\$
	Note		
ASSETS			
Cash and cash equivalents	12(a)	8,123,428	18,475,447
Receivables	11	1,279,828	1,753,449
Prepayments		-	8,656,894
Financial assets at fair value through profit or loss		-	33,691
Loans and receivables	7	334,573,501	425,805,318
TOTAL ASSETS		343,976,757	454,724,799
LIABILITIES			
Management fee Payable	10	2,470,000	-
Financial assets at fair value through profit or loss		129,192	-
Payables	8	7,980,824	3,702,723
Interest bearing loans and borrowings	9	39,610,078	62,399,788
Distributions payable	3(a)	4,806,035	6,434,965
Total liabilities excluding net assets attributable to unitholders		54,996,129	72,537,476
NET ASSETS	6	288,980,628	382,187,323
Represented by:			
Net assets attributable to unitholders (calculated in accordance with IFRS)		288,980,628	382,187,323

LVI FIRST MORTGAGE INCOME FUND
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the year ended 30 June 2012

TOTAL	2012	2011
Opening balance	\$	\$
Units issued during the year	382,187,323	487,011,534
Units redeemed during the year	3,012,163	81,549
Units issued on reinvestment of distributions	(6,666,198)	(24,184,932)
Changes in net assets attributable to unitholders	15,959,774	12,098,705
Foreign exchange (gain)/loss on investor funds	(105,639,966)	(91,714,821)
Closing Balance	127,532	(1,104,712)
	<u>288,980,628</u>	<u>382,187,323</u>

LVI FIRST MORTGAGE INCOME FUND

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Note	30 June 2012 \$	30 June 2011 \$
Cash flows from operating activities			
Interest and distributions received		404,955	5,006,959
Management fees paid		(5,180,443)	-
Other operating expenses		(759,450)	(614,903)
Other income received		-	-
GST and withholding tax (paid)/received		-	-
Finance costs paid		(8,143,798)	(15,144,105)
Net cash inflow/(outflow) from operating activities	12(b)	(13,678,736)	(10,752,049)
Cash flows from investing activities			
Payments for secured mortgage loans		(16,924,379)	(15,897,472)
Receipts from settled mortgage loans		46,822,765	62,313,149
Net cash inflow/(outflow) from investing activities		29,898,386	46,415,677
Cash flows from financing activities			
Repayment of borrowings		-	(81,014,217)
Proceeds from facility		-	89,100,000
Repayment of facility		(22,789,710)	(26,700,212)
Cash paid on realisation of foreign exchange contracts		(69,271)	-
Receipts from the issue of units		2,312,382	70,000
Distributions paid		(2,424,725)	-
Payment for redemption of units		(3,600,345)	(620,461)
Net cash inflow/(outflow) from financing activities		(26,571,669)	(19,164,890)
Net increase/(decrease) in cash and cash equivalents		(10,352,019)	16,498,738
Cash and cash equivalents at beginning of the year		18,475,447	1,976,709
Cash and cash equivalents at the end of the year	12(a)	8,123,428	18,475,447

LM FIRST MORTGAGE INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The financial report of LM First Mortgage Income Fund ("the Scheme") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 16 November 2012.

The Scheme is an Australian registered scheme, constituted on 13 April 1999. The Scheme will be terminated on 13 April 2080 unless terminated earlier in accordance with the provision of the Scheme Constitution (as amended).

LM Investment Management Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 4, 9 Beach Road, Surfers Paradise, Queensland.

The nature of the operations and principal activities of the Scheme are described in the Directors' Report.

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 is a general purpose financial report that has been prepared in accordance with the Scheme Constitution, and the requirements of the *Corporations Act 2001*, 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 on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and does not distinguish between current and non-current items. All balances are expected to be recovered or settled within twelve months, except for loans and receivables and net assets attributable to unitholders. 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 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

Notes to the Financial Statements for the year ended 30 June 2012

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

a) Basis of accounting (Continued)

Status of investment in fund

During the 2009 year, the Responsible Entity closed the Scheme to new investors and suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for distributions and expenses. Feeder funds are other registered managed investment schemes that have invested directly in the LM First Mortgage Income Fund. Redemptions are generally to be paid within 365 days of the investment maturity term, however, redemptions have been suspended, per the constitution, as the Responsible Entity considers the suspension of withdrawals to be in the best interest of the members of the Scheme.

Since the closure of the Scheme, LM has managed an orderly asset sales process. When it closed, there were 55 loan assets. Since that time 28 of loans have been repaid through an ongoing asset sales process. LM is driving the orderly sale of the remaining 27 number of loans.

The nature of all the properties the fund took control of the security was varied in terms of sector type and the loans provided a broadly diversified geographic exposure across the Australian property market.

In this reporting period, the Responsible Entity has sought further feedback from investors in this regard and has announced that the fund will not re-open. All investors will share pro-rata in capital distributions as the sales progress.

Approved investor hardship withdrawals will continue as the sales proceed.

Going Concern

The financial statements have been prepared on the basis the Scheme is a going concern. The Responsible Entity entered into a facility with its external financier on behalf of the Scheme that provided a facility of \$90 million for two years with an option, that was exercised, to extend the facility for an additional year up to 30 June 2013, the loan balance was \$39.6 million as at 30 June 2012 (30 June 2011: \$62.4million).

The facility agreement requires the Scheme to make minimum repayments in priority to any redemptions, except for hardship provisions and feeder fund payments for investor distributions and fund expenses. In addition, where the Scheme realises assets or receives cash in settlement of secured loans it must repay to the external financier an agreed amount that varies based on each secured loan.

As a result of disruptions following the global financial crisis, there is significant volatility in the financial and property markets which may impact the timing of future cash flows in relation to the Scheme's realisation of assets or receipt of cash in settlement of secured assets that is required to repay this facility and the ability of the Scheme to realise its loans and receivables at the amounts stated in the accounts. In the event that funding beyond 30 June 2013 is unable to be obtained from financiers, or cash receipts from asset sales are delayed and/or less than currently envisaged and the Scheme is unable to continue to comply with repayment obligations, the Scheme may not be able to continue as a going concern.

This uncertainty may impact the ability of the Scheme to realise these loans and receivables at the amounts stated in the accounts. As described in Note 2(c), significant judgement has been applied in determining the carrying value of loans and receivable amounts.

LIV FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

a) Basis of accounting (Continued)

The directors believe the Scheme will be able to meet its obligations under the repayment plan through repayment of existing loans including the refinancing of existing loans with alternative financing providers, the repayment of loans from related entities, or the continued support from the external financier.

The directors expect that based on progress to date in meeting the repayment obligations and the status of negotiations with potential financiers, the Scheme will be in a position to secure additional funding or redraw on the amended facility to complete development projects valued on an "on completion basis".

The Responsible Entity is also considering options for a managed redemption plan restructure for those investors with a redemption request lodged. The directors must also ensure that they protect those investors who wish to remain invested in the Scheme.

As a result of the above, the directors believe that the Scheme will be able access funding, and be able to realise its loans and receivables in the normal course of business as a going concern at the amounts stated. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities that might be necessary should the Scheme not continue as a going concern.

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 annual reporting period ended 30 June 2012. The impact of these standards and interpretations has been assessed and to the extent applicable to the Scheme are discussed below. Standards and Interpretations that are not expected to have a material impact on the Scheme have not been included.

AASB 9 Financial Instruments and related amendment AASB 2009-11

AASB 9 applies to annual reporting periods beginning on or after 1 January 2013 and will therefore apply to the Scheme from 1 July 2013. The Scheme does not intend to early adopt AASB 9 as permitted by the standard, and the actual impact on initial application will depend on certain elections as disclosed below.

AASB 9 requires all financial instruments to be measured at fair value unless the criteria for amortised cost are met. The application of the standard is not expected to change the measurement basis of any of the Scheme's current financial instruments, however, AASB 9 allows the Scheme to elect to present gains and losses on equity securities through other comprehensive income, which may impact the presentation of these gains and losses. The impact of the standard may also change if the nature of the Scheme's activities or investments changes prior to initial application.

AASB 10 Consolidated Financial Statements and related standards AASB 11, AASB 12

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and AASB Interpretation 112 *Consolidation – Special Purpose Entities*. The standard is not applicable until 1 January 2013, but is available for early adoption. The Scheme does not intend to early adopt AASB 10. Management does not

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations (Continued)

expect the adoption of AASB 10 to lead to any change to the presentation of consolidated financial statements based on the Scheme's current investment strategy.

c) Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made judgements and estimations which have had an impact on the amounts recognised in the financial statements. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

a. 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 that is where the Scheme does not expect to receive all of the cash flows contractually due. Individually assessed provisions are made against individual facilities. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances have not been discounted.

b. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

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 consist of 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 the income is established.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

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.

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: Recognition and Measurement* are classified as either financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale investments or other financial liabilities as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Scheme determines the classification of its financial assets at initial recognition.

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

i) Fair value of financial assets and liabilities through profit and loss

Financial assets held for trading included forward exchange contracts. These assets are acquired principally for the purpose of mitigating the risk of movements in the value of non-Australian Dollar investor funds and facilitating forecasting of future cash flows. During the period, all derivatives are classified as held for trading. Derivative financial instruments entered into by the Scheme do not meet the hedge accounting criteria as defined by AASB139. Consequently, hedge accounting is not applied by the Scheme in the 2012 financial year.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1c) Financial Instruments (Continued)

ii) 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 the loans and receivables are derecognised or impaired, as well as through the amortisation process.

ii) Loans and receivables (Continued)

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for credit losses when there is objective evidence that the Scheme will not be able to collect the loans and receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as an expense in the statement of comprehensive income.

The amount provided for impairment of loans is determined by management of the Scheme and approved by the Board of Directors. 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.

Where possible, the Scheme seeks to restructure loans to have loans fully performing, however the fund will take enforce its rights to security where necessary. The renegotiation may involve extending payment terms and arrangement of new loan conditions. Once the terms have been renegotiated any impairment is measured the same way as performing loans. The renegotiated loans continue to be assessed individually and collectively for impairment.

"Restructured loans" arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and new terms are not comparable to the original terms. These loans are removed from 'restructure loans' after a period of 12 months of performance against loan revised terms and conditions. Loans with revised terms are included in 'loans in arrears' when impairment provisions are required.

When the Responsible Entity determines interest is not recoverable on certain impaired loans, the interest is suspended and not brought into income. Should the Responsible Entity's analysis of the collectability subsequently change the interest will be brought into income at the time it is determined to be collectible.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Advisor Commissions

Advisor commissions may be paid to the unitholders' investment advisors and are calculated as a percentage of funds invested in the Scheme. These commissions are paid monthly in arrears and are brought to account on an accrual basis. The Scheme ceases to pay advisor commissions when the related units are redeemed.

m) Payables

Payables are carried at amortised cost and represent liabilities for goods and services provided to the Scheme prior to the end of the financial 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 2012 under the Scheme's Constitution.

n) 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.

o) Distributions

In accordance with the Scheme's Constitution, the Scheme fully distributes its distributable income to unitholders. Distributions are payable monthly. Such distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

p) 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%.

Hence 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 receivable in the statement of financial position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

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

LMI FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) 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 of 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.

r) Taxation

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

The price of a unit is based upon market values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax. Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

s) 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.

t) Capital management

The Responsible Entity manages the Scheme's net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders is classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Responsible Entity monitors the level of daily applications and redemptions relative to the liquid assets in the Scheme.

The Scheme is not subject to any externally imposed capital requirements.

u) 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.

LVI FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Derivative financial instruments (Continued)

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 exchange contracts are held.

v) 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 are 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.

w) 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 traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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

Refer to Note 15 to the financial statements for the methods and assumptions applied in determining fair value for each class of financial instrument.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS

a) Distributions to unitholders

	2012	2011
	\$	\$
Distributions paid/reinvested	12,218,354	7,860,960
Distributions payable	4,806,035	6,434,965
	<u>17,024,389</u>	<u>14,295,925</u>

b) Distributions paid and payable

Class A	-	5,304,007
Class B	16,904,211	8,836,041
Class C	120,178	155,877
	<u>17,024,389</u>	<u>14,295,925</u>

As at 30 June 2012, \$5,572,054 (2011: \$6,289,306) of distributions payable related to distributions that were requested to be paid under the Scheme's Constitution prior to 30 June 2012. Distributions have been suspended from 1 January 2011. Subsequent to balance date, \$1,039,826 of distributions have been paid relating to February and March 2011.

As noted in Note 6, the Scheme has three classes of unitholders. Distributions of \$16,904,211 were declared to Class B Unitholders. These distributions were declared to enable the feeder funds to recognise distribution income to match expenses incurred. All feeder funds have reinvested back into the Scheme during the period. Compliance with the Trust Deed and Corporations Act in relation to these distributions is a matter of legal interpretation and the Responsible Entity believes it has an arguable position to support the declaration of these distributions as being fair and reasonable to all classes of unitholders.

4. EXPENSES

	2012	2011
	\$	\$
a) Finance costs		
Interest on bank loans	8,143,798	13,519,294
Facility fees	450,000	553,495
	<u>8,593,798</u>	<u>14,072,789</u>
b) Other expenses		
Auditor's remuneration	559,905	415,880
Other expenses	197,109	65,650
	<u>757,014</u>	<u>481,530</u>

5. AUDITOR'S REMUNERATION

	2012	2011
	\$	\$
Audit and review of the financial reports	534,258	388,480
Other regulatory audit services	25,647	27,400
	<u>559,905</u>	<u>415,880</u>

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

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

6. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	2012 \$	2011 \$
Net assets attributable to unitholders		
Class A		
Opening balance	254,832,731	253,713,032
Units issued during the year	-	11,549
Units redeemed during the year	(2,072,000)	(547,888)
Units issued upon reinvestment of distributions	-	1,656,038
Closing Balance	<u>252,760,731</u>	<u>254,832,731</u>
Class B		
Opening balance	210,391,005	223,613,698
Units issued during the year	3,004,385	70,000
Units redeemed during the year	(4,497,306)	(23,610,149)
Units issued upon reinvestment of distributions	15,964,355	10,317,456
Closing Balance	<u>224,862,439</u>	<u>210,391,005</u>
Class C		
Opening balance	9,635,388	10,641,784
Units issued during the year	-	-
Units redeemed during the year	(47,739)	(26,895)
Units issued upon reinvestment of distributions	-	125,211
Foreign exchange (gain)/loss on investor funds	87,878	(1,104,712)
Closing Balance	<u>9,675,527</u>	<u>9,635,388</u>
Cumulative movement in changes net assets attributable to unitholders	<u>(198,318,069)</u>	<u>(92,671,801)</u>
Total assets attributable to unitholders	<u>288,980,628</u>	<u>382,187,323</u>

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:

- Flexi Account investment option;
- Fixed Term Investment option; and
- LM Savings Plan investment option.

Class B consists of related Scheme unitholders. The distribution rate will be determined by the Funds Committee which is appointed by the Responsible Entity. The Responsible Entity has the discretion to waive the whole or part of the 1% trailing commission and the whole or part of its management fee for this class of unit holders.

LIM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

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

Class C consist of unitholders who have invested in foreign currencies and are entitled to receive the declared distribution rate. The class C product is Non-Australian Dollar Currency Hedged Fixed Term Investment Option. This consists of various terms and currency products.

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. In the event of winding up of the Scheme, all unitholders rank after creditors and are equally entitled to the proceeds of liquidation.

7. LOANS AND RECEIVABLES

	2012	2011
	\$	\$
Secured mortgage loans	467,528,292	490,865,724
Secured mortgage loans – 2 nd priority	13,310,672	11,365,047
Other unsecured loans – related party	-	-
Provision for impairment	(146,265,463)	(76,425,453)
Net loans and advances	334,573,501	425,805,318

As part of a structured exit strategy for a loan the Manager may subordinate the priority of a first mortgage. As at 30 June 2012 there is one loan which has been subordinated as an exit and recovery strategy. The total amount of the loan is \$13,310,672 and the combined first and second loans constitute 63% of the value of the property held as security

a) Aggregate amounts receivable from related parties

	2012	2011
	\$	\$
Directors and director-related entities – secured ¹	8,209,841	7,849,604
Related managed investment schemes – secured	1,708,151	2,243,485
Related managed investment schemes – unsecured	-	-
	9,917,992	10,093,089

No impairment provision has been raised in relation to amounts receivable to related parties.

b) Maturity analysis – Secured Mortgage Loans

	2012	2011
	\$	\$
Less than 3 months	264,566,390	282,809,146
3-6 months	-	-
6-12 months	-	7,849,604
12-18 months	-	11,365,047
18-24 months	-	-
24-36 months	-	-
	264,566,390	302,023,797

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

7. LOANS AND RECEIVABLES (Continued)

b) Maturity analysis – Secured Mortgage Loans (Continued)

The above maturity analysis is the contractual maturity of secured non-construction loans. Secured construction loans will be realised through cash flows which in years one and two will be reinvested to meet construction costs, and which are expected to realise a net cash inflow in three to five years (see Note 7(c)).

c) Loans secured by construction assets

The Scheme's loans and receivables include loans of \$216.3 million (30 June 2011: \$200.2 million) secured on assets under construction where the loan will be repaid through the cash flows of the project. The Scheme is required to access external funding to complete these projects and the Responsible Entity is negotiating with current and alternate financiers to secure the financing to complete these projects (refer Note 2a).

The Scheme has assessed impairment on these assets based on an "on complete basis", being the difference between a financial asset's carrying amount and the present value of the expected future cash flows of the project, discounted at the financial asset's original effective interest rate. There is significant uncertainty as to the Scheme's ability to access external funding to complete these projects. This uncertainty may impact the ability of the Scheme to realise these loans and receivables at the amounts stated in the accounts.

d) Concentration of risk

There are four (2011: four) counterparties with which the Scheme's credit exposure exceeds 10% of the net assets attributable to unitholders as at 30 June 2012. The total value of loans, before taking into account collateral or other credit enhancements, is \$188,144,853 (2011: \$190,025,272).

For concentration of risks relating to mortgage type and geographical location refer to Note 14.

e) Provisions for impairment

The impairment loss expense relating to loans and receivables comprises:

	2012	2011
	\$	\$
<i>Specific provision</i>		
Opening balance	76,425,453	4,800,000
Impairment losses provided for during the year	99,144,122	84,360,301
Impairment losses realised during the year	(29,304,112)	(12,734,848)
Closing balance	146,265,463	76,425,453
Total Provision for impairment	146,265,463	76,425,453

Changes to operating profit/(loss) before tax for impairment losses on loans and receivables comprises:

Specific provision	69,840,010	71,625,453
Impairment losses recognised directly in Statement of Comprehensive Income	29,304,112	13,248,250
	99,144,122	84,873,703

LMI FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

7. LOANS AND RECEIVABLES (Continued)

e) Provisions for impairment (Continued)

The Scheme determines when loans are impaired on an individual basis and therefore no collective provision is made.

	2012	2011
	\$	\$
<i>Movement in Default loans</i>		
Gross default loans opening balance	481,037,628	332,894,902
New and increased default loans	67,271,669	170,613,998
Balances written off	(29,304,112)	(13,248,250)
Returned to performing or repaid	(61,394,886)	(60,827,696)
	<u>457,610,299</u>	<u>429,432,954</u>
Gross default loans closing balance	457,610,299	429,432,954
Specific provision	(146,256,463)	(76,425,453)
	<u>311,344,836</u>	<u>353,007,501</u>
Net default loans	311,344,836	353,007,501

At 30 June 2012, the balance of loans that were past due but not impaired was \$41,699,026 (2011: \$157,695,871). As per the Scheme's policy, loans are past due once they exceed 90 days overdue.

At 30 June 2012, \$415,911,274 of loans were individually impaired, with a total impairment loss of \$146,265,463.

Interest on arrears loans is suspended and not brought to account when the Responsible Entity considered that the amounts are not ultimately recoverable from the sale proceeds of the property. The amount of suspended interest at 30 June 2012 totalled \$119,557,492 (2011: \$87,077,591).

8. PAYABLES	2012	2011
	\$	\$
Loan Management Fee payable	2,073,206	-
Accounts payables	5,907,618	3,702,723
	<u>7,980,824</u>	<u>3,702,723</u>

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

9. INTEREST BEARING LOANS AND BORROWINGS

	2012	2011
	\$	\$
Secured bank loan	<u>39,610,078</u>	<u>62,399,788</u>

On 1 July 2010, the Directors of the Responsible Entity of the Scheme, LM Investment Management Limited, entered into a new facility with an external financier. The facility agreement provided a \$90 million facility for two years with an option to extend for an additional year with interest at 15% per annum increasing to 18% if the loan term was extended. On the 29 February 2012, the responsible Entity exercised this option and extended the facility to 30 June 2013.

In the event that repayments are not made in accordance with the repayment plan mentioned below, the interest rate payable is increased by 3% for the first six months and 5% thereafter.

The Scheme is also required to hold a minimum cash balance of \$6 million, in the event that the minimum cash balance falls below this threshold the Scheme has 90 days to rectify the cash position.

The facility agreement requires the Scheme to make minimum repayments over the term of the facility. These minimum repayments must be made in priority to any redemptions, except for hardship provisions and feeder fund payments for investor distributions and fund expenses. The Scheme has met all the required repayments.

In addition, where the Scheme realises assets or receives cash in settlement of secured loans it must repay to the external financier an agreed amount that varies based on each secured loan.

Where the Scheme has made repayments in excess of the minimum repayments required, the facility allows the Scheme to redraw funds to complete agreed development projects or establish new loans subject to prior approval from the external financier.

The facility is secured by a fixed and floating charge over the assets of the Scheme, providing Deutsche Bank, as secured lender, with first priority over the assets of the Scheme.

The Scheme's financing facilities contain various financial covenants. The Scheme has complied with all loan covenants in the facility agreement during the period and remains in compliance the current balance of the facility at the date of this report is \$29,409,490. The facility is required to be fully repaid by the 30 June 2013, see Note 2a.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

10. RELATED PARTIES

Responsible Entity

The Responsible Entity of LM First Mortgage Income Fund is LM Investment Management Limited (ABN 68 077 208 461). Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Limited, an associate of the Responsible Entity. LM Administration Pty Limited is paid a management fee directly from the Scheme.

Custodian

The Custodian of the Scheme is The Trust Company (PTAL) Limited.

Directors

The names of each person holding the position of director of LM Investment Management Limited during the financial year are disclosed in Note 13.

Directors' remuneration

No amounts are paid by the Scheme directly to the directors of the Responsible Entity. The amount of remuneration paid by the Responsible Entity and its related parties to directors of the Responsible Entity in connection with their responsibilities for the Scheme is separately identified in Note 13.

Directors' holdings of units

The interests of LM Investment Management Limited and its associates in the Scheme at year-end are set out below.

	2012	2011
	\$	\$
- LM Investment Management Limited	-	-
- Directors and director related entities	-	-
- Other Associates of LM Investment Management Limited	166,333,219	167,378,018

Investing activities

The Scheme may purchase and sell units in other approved schemes or investment entities operated by LM Investment Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those schemes. At 30 June 2012 the Scheme had no investments in other schemes operated by LM Investment Management Limited or its affiliates (2011: nil).

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

10. RELATED PARTIES (Continued)

Other transactions with the Scheme

From time to time the directors of LM Investment Management Limited, or their director-related entities, may invest or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors. Apart from the details disclosed in this note, no director has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end. All transactions were approved on an arm's length basis and on normal terms and conditions.

Administration and funds management services are provided to the Scheme on behalf of the Responsible Entity by LM Administration Pty Limited, an associate of the Responsible Entity. LM Administration Pty Limited is paid a management fee for these services directly from Scheme assets.

During the year, management fees of \$9,103,864 (2011: \$10,997,188) was paid or payable by the Scheme. Of these fees, \$9,103,864 (2011: \$10,997,188) were paid or payable to LM Administration Pty Limited.

During the year, loan origination fees received from borrowers within the Scheme were \$112,000 (2011: nil). These fees are charged when new borrowings are undertaken or existing borrowings are rolled over to non-default conditions.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

10. RELATED PARTIES (Continued)

Other transactions with the Scheme (Continued)

The LM Managed Performance Fund (LM MPF) has second mortgages on loans that are first mortgages of the Scheme totalling \$60,281,381 (2011: \$46,158,276). LM MPF may on occasion pay development and construction costs on those related loans. As part of its role as second mortgagee, LM MPF will fund interest payments from time to time within approved loan facility limits. During the 30 June 2012 year, interest payments totalling \$635,999 (2011: \$915,954) were paid by LM MPF on behalf of borrowers.

	2012	2011
	\$	\$
<i>Responsible Entity remuneration received or due and receivable</i>		
◦ Management fees for the year paid or payable directly from LM Administration Pty Limited	9,103,864	10,997,188
◦ Expenses including administration expenses incurred by the Responsible Entity and its associated entities, which are reimbursed in accordance with the provisions of the Constitution	28,983	791,164
◦ Expenses including administration expenses incurred by the Responsible Entity and its associated entities, which are not reimbursed	38,524	-
◦ Loan management fees paid to the Responsible Entity for loan management and controllership services provided by the Responsible Entity on behalf of the Scheme in replacement of appointing external receivers. These fees are charged directly to the borrowers to facilitate possible future recovery.	4,817,414	5,381,516
<i>Custodian's remuneration</i>		
◦ Custodian's fees paid by the Scheme	77,904	112,324
<i>Balance with related parties</i>		
Aggregate amounts receivable from related parties by the Scheme were as follows:		
◦ LM Administration Pty Limited (management fees prepaid by the Scheme) (i)	-	8,200,000
◦ Australian International Investments Pty Limited (ii)	8,209,841	7,849,604
◦ LM Managed Performance Fund (iii)	1,708,151	-
Aggregate amounts payable to related parties from the Scheme were as follows:		
◦ LM Administration Pty Limited (management fees payable by the Scheme) (i)	2,470,000	-
◦ John O'Sullivan (iv)	109,157	162,609

LIM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

10. RELATED PARTIES (Continued)

Other transactions with the Scheme (Continued)

- i). These amounts are included in management fee payables of \$2,470,000 at 30 June 2012 (2011: prepayment of \$8,200,000). The average monthly balance of prepayments during the year was \$153,808 (2011: \$8,200,000) which was non-interest bearing. Interest foregone on the above amount if calculated at the weighted average cash rate of 4.15% (2011: 4.02%) would have been \$6,383 (2011: \$329,640). If this revenue had been collected, the sum foregone would have been paid to LM Administration Pty Limited as management fees or reduction in change in net assets attributable to unitholders during the year. As at 30 June 2012, there was payable of \$2,470,000 to LM Administration Pty Limited for management fees.
- ii). Peter Charles Drake is a director and guarantor of Australian International Investment Services Pty Limited which is a joint borrower in a secured loan facility outstanding to the Scheme as at 30 June 2012 for \$8,209,841 (2011: \$7,849,604). This transaction was approved on an arm's length basis and is on normal terms and conditions. Peter Charles Drake has no ability to derive financial benefit from this mortgage loan.
- iii). The Scheme has a loan with LM MPF that is interest bearing at 11%. This loan is a performing asset and is well secured.
- iv). John O'Sullivan is the beneficial owner of O'Sullivan Capital Management Limited, which has been engaged by LM Investment Management Limited to provide marketing services in New Zealand. For the year ended 30 June 2012, \$88,703 (2011: \$95,645) in adviser marketing commission has been earned, with \$109,157 (2011: \$162,609) payable. This engagement is on normal commercial terms and at arm's length and remains in place after John O'Sullivan's resignation as director.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

10. RELATED PARTIES (Continued)

Unitholder investing activities

Details of holdings in the Scheme by LM Investment Management Limited, its affiliates including directors and director related persons or other schemes managed by LM Investment Management Limited are set out below:

Entity	Investment at year end \$	Interest held in the scheme at year end %	Units issued during the year #	Units redeemed during the year #	Distributions paid and payable \$
30 June 2012					
LM Currency Protected Australian Income Fund	87,470,115	24.75%	13,241,691	2,176,302	10,748,362
LM Institutional Currency Protected Australian Income Fund	6,698,013	1.90%	1,271,368	481,008	1,039,548
LM Wholesale First Mortgage Income Fund	72,164,922	20.42%	6,268,761	3,264,195	5,116,301
Dhani Darcy	169	0.00%	-	-	-
Total	166,333,219	47.07%	20,781,820	5,921,505	16,904,211
Entity	Investment at year end \$	Interest held in the scheme at year end %	Units issued during the year #	Units redeemed during the year #	Distributions paid and payable \$
30 June 2011					
LM Currency Protected Australian Income Fund	84,319,198	22.21%	7,264,994	19,905,996	5,945,879
LM Institutional Currency Protected Australian Income Fund	6,377,442	1.68%	520,651	2,328,849	430,529
LM Wholesale First Mortgage Income Fund	76,681,193	20.20%	2,953,480	3,578,488	2,459,271
Dhani Darcy	185	0.00%	5	-	-
Total	167,378,018	44.09%	10,739,130	25,813,333	8,835,679

LIV FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

11. RECEIVABLES

	2012	2011
	\$	\$
Mortgage interest receivable	972,381	929,706
Penalty interest receivable	181,131	132,446
GST receivable	120,451	674,721
Other	5,865	16,576
	<u>1,279,828</u>	<u>1,753,449</u>

During the year, the penalty interest receivable was capitalised onto the secured mortgage loan balance. Refer Note 7 Loans and Receivables.

12. CASH AND CASH EQUIVALENTS

a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash and cash equivalents comprise:

	2012	2011
	\$	\$
- Cash at bank and in hand	<u>8,123,428</u>	<u>18,475,447</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is \$8,123,428 (2011: \$18,475,447).

As at 30 June 2012, \$317,967 (2011: \$351,071) 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. The Scheme's financier is required to authorise cash outflows from the restricted account (into which loan settlement proceeds are received) and in the event that the minimum cash balance is breached, the financier is required to authorise all cash outflows, including those from the unrestricted account which receipts interest from borrowers.

As at 30 June 2012 the Scheme held \$3,687,652 across these two bank accounts and therefore was below the minimum cash balance required under the facility. Since the year-end and within the 90 day allowable period for rectification the minimum cash balance has been met.

LIM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

12. CASH AND CASH EQUIVALENTS (Continued)

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

	2012	2011
	\$	\$
Change in net assets attributable to unitholders	(105,340,982)	(90,886,748)
<i>Adjustments for:</i>		
Non-cash impairment expense	98,845,139	83,974,954
Non-cash interest income	(31,526,951)	(31,158,288)
Non-cash Management fees	(4,228,333)	-
Distributions to unitholders	16,533,426	14,295,925
(Gains)/loss on foreign exchange contracts	(145,432)	(1,134,069)
(Gains)/loss on investor funds	(167,394)	1,338,500
(Increase)/decrease in interest receivable	(97,225)	998,057
(Increase)/decrease in other receivables	11,731,431	10,065,637
Increase/(decrease) in payables	717,585	2,353,983
Net cash flows from/(used in) operating activities	(13,678,736)	(10,752,049)

c) Reinvestment of distributions

During the financial year, the Scheme issued \$16,904,211 (2011: \$12,098,705) as a result of reinvestment of distributions by unitholders. These transactions have not been included in the Statement of Cash Flows.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

13. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

(i) Key Management Personnel

The Key Management Personnel ("KMP") of the Scheme were deemed to be the Directors of the Responsible Entity. The Directors of the Responsible Entity during the year were:

Executive directors

Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003 – Resigned 21 June 2012
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006
Mr Simon Tickner	Appointed 18 September 2008 – Resigned 13 July 2012
Mr Grant Fischer	Appointed 14 March 2012 – Resigned 12 August 2012

Non-executive directors

Mr John O'Sullivan	Appointed 27 November 2007 – Resigned 19 September 2012
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(b) Compensation of Key Management Personnel

(i) Compensation Policies and Principles

Remuneration of KMP is paid by LM Administration Pty Limited, appointed by LM Investment Management Limited as per its service agreement with that entity. The KMP do not receive any remuneration directly from the Scheme and there are no agreements in place between the KMP and the Scheme. The remuneration of KMP as disclosed below has been allocated based on the each KMP's cost of remuneration applicable to the Scheme. The principles used to allocate these costs (for disclosure purposes only) are discussed below.

(ii) Executive Directors

The Executive Directors of the Board of the Directors of LM Investment Management Limited are responsible for determining and reviewing compensation arrangements for the KMP of the Responsible Entity. The Executive directors assess the appropriateness of the nature and amount of emoluments of the KMP on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Responsible Entity.

It is the Executive Directors' policy that employment agreements shall only be entered into with the Executive Directors of the Responsible Entity, but with no other parties.

(iii) Non-executive directors

Fees paid to non-executive directors are based on decisions made by the Executive Directors. This takes into account workload requirements and responsibilities of each Director. Fees for duties as Directors are not paid to executive Directors as their remuneration is provided as part of their normal terms and conditions.

LIV FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

13. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(iv) Principles of KMP Remuneration Allocations

For all schemes managed by the Responsible Entity, the cost of total KMP remuneration has been allocated to each scheme. The Responsible Entity has estimated the amount of time spent by each KMP performing responsibilities and duties to individual schemes, and on a percentage basis, has allocated the remuneration cost to each scheme. Where a KMP has not spent time specifically on a scheme, but rather has acted in a role as KMP of the Responsible Entity only, remuneration cost has been allocated evenly across all schemes.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

13. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(i) Remuneration of KMP allocated to this fund

2012

Specified KMP	Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Super	Retirement Benefits	Equity	Other	TOTAL	Total performance related %
Drake, PC*	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	-
Darcy, LM**	40,678	59,197	926	-	-	-	-	-	-
Van der Hoven, E**	30,506	29,598	-	3,512	-	-	-	104,413	-
Mulder, F**	26,098	29,598	-	2,716	-	-	-	62,820	-
Tickner, S**	28,492	29,598	-	2,322	-	-	-	58,018	-
O'Sullivan, J	38,923	-	-	2,580	-	-	-	60,670	-
Fischer, G**	23,023	29,598	-	-	-	-	-	38,923	-
	187,720	177,589	926	13,294	-	-	-	379,529	-

2011

Specified KMP	Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Super	Retirement Benefits	Equity	Other	TOTAL	Total performance related %
Drake, PC*	\$ -	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	-
Darcy, LM**	54,525	42,500	-	4,817	-	-	-	-	-
Van der Hoven, E**	40,678	21,635	-	3,621	-	-	-	101,842	-
Mulder, F**	35,052	21,635	-	3,095	-	-	-	65,934	-
Tickner, S	38,564	21,635	-	3,440	-	-	-	59,783	-
O'Sullivan, J	43,543	-	-	-	-	-	-	63,639	-
	212,362	107,405	-	14,974	-	-	-	334,741	-

* Peter Charles Drake is the beneficial owner of 100% of the ordinary shares of the Responsible Entity. No salary and wages are paid to Peter Drake directly from the company or any of the schemes.

** As executives of the Responsible Entity, LM Darcy, E van der Hoven, F Mulder, S Tickner and G Fischer are entitled to a termination benefit that is payable on cessation of employment or a significant change in ownership of the company. No amount has been reflected in the above disclosures in relation to this potential future benefit.

LMI FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

13. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Compensation by category: Key Management Personnel

	2012	2011
	\$	\$
Short term	366,235	319,767
Post employment	13,294	14,974
Other long term	-	-
Termination benefits	-	-
Equity based payment	-	-
Other	-	-
	379,529	334,741

Loans to Specified KMP

The Scheme has not made, guaranteed or secured, directly or indirectly any loans to the KMP or their related entities during the period.

(c) Other Transactions and Balances with Specified KMP

Other than those items disclosed in the related party Note 10, the Scheme has no other transactions and balances with specified KMP.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial Risk Management Objectives, Policies, and Processes

Risks arising from holding financial instruments are inherent in the Scheme's activities, and are managed through a process of ongoing identification, measurement, and monitoring. The Scheme is exposed to credit risk, liquidity risk, and market risk.

Financial instruments of the Scheme comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Scheme from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Scheme, as well as the level of risk that the Scheme is willing to accept.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Financial Risk Management Objectives, Policies, and Processes (Continued)

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management, Risk and Investment Committees, and ultimately the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme uses foreign exchange contracts to manage exposures resulting from changes in foreign currencies.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, and other conditions.

In order to avoid excessive concentrations of risk, the Scheme monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces the exposure or uses derivative instruments and collateral to manage the excessive concentrations when they arise.

b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Scheme minimises credit risk by:

- undertaking credit assessment procedures on prospective borrowers;
- dealing with Australian regulated banks for cash balances; and
- obtaining independent valuations for all loans.

As at year end, mortgage loans were secured as follows:

- a) A combination of completed development projects, industrial 4.46% (2011: 8.05%) and residential 38.57% (2011: 33.12%);
- b) Land 6.00% (2011: 3.62%);
- c) Commercial property 16.65% (2011: 19.15%); and
- d) Construction and development projects in the residential and retirement sectors 34.32% (2011: 36.05).

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

b) Credit Risk (Continued)

Risk concentrations of credit risk

Concentrations of credit risk are managed by counterparty and by geographical region. The percentage of loans secured by property in different geographical locations is as follows:

	2012	2011
Within 40km of Sydney CBD	1.29%	1.85%
New South Wales – Other	14.95%	17.42%
Within 40km of Melbourne CBD	7.57%	4.34%
Victoria – Other	-	-
Queensland – Other	66.16%	65.83%
Canberra – Other	2.16%	1.56%
Western Australia	6.65%	8.18%
Tasmania	1.22%	0.82%
	100.00%	100.00%

Counterparty concentration has been disclosed at Note 7(d).

The maximum credit risk exposure at year end in relation to mortgage loan is the carrying value of the assets as indicated in the Statement of Financial Position.

The Scheme has a concentration of credit risk relating to the derivative instruments as all foreign currency swaps are entered into with the same counterparties.

Credit quality of mortgage loans

The credit quality of financial assets was managed by the Scheme using internal risk rating categories in accordance with the investment mandate of the Scheme. The Scheme currently monitors credit quality through active management of the underlying security to maximise recovery.

As at 30 June 2012, the Scheme enforced its rights to security relating to loans in default of \$403.6 million (2011: \$405.2 million) and had taken possession of assets offered as collateral security valued at \$306.2 million (2011: \$415.2 million).

b) Liquidity risk

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unitholder redemptions.

The nature of the investments entered into by the Scheme commands that liquidity be managed cautiously and aligned to the redemptions policy outlined within the constitution of the Scheme. At 30 June 2012, the redemptions requested from unitholders but not paid was \$133,308,960 (2011: \$144,181,702). An additional \$120,270,451 (2011: \$147,917,267) of redemptions had been requested by unitholders of the feeder funds – refer to Note 6.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

c) Liquidity risk (Continued)

During the 2009 year, the Responsible Entity closed the Scheme to new investors and suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for distributions and expenses. Feeder funds are other registered managed investment schemes that have invested directly in the LM First Mortgage Income Fund. Redemptions are generally to be paid within 365 days of the investment maturity term, however, redemptions have been suspended, per the constitution, as the Responsible Entity considers the suspension of withdrawals to be in the best interest of the members of the Scheme.

As at 25 October 2012, \$133,510,949 of redemptions had been requested by unitholders but not yet paid. Redemptions also rank behind repayment of external financing facilities as detailed in Note 2(a).

Maturity Analysis of Financial Liabilities

Financial liabilities of the Scheme comprise trade and other payables, distributions payable, net assets attributable to unitholders, fair value of foreign exchange contracts and the secured bank loan. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days. Foreign exchange contracts mature within 12 months of year end.

Net assets attributable to unitholders mature over the following periods:

Period from 30 June 2012	Value
Due and payable*	266,495,793
< 12 months	94,506,469
12-24 months	8,255,443
24-36 months	714,757
36-48 months	321,641
>48 months	-
Total	370,294,103

* This balance represents redemptions requested but not paid at 30 June 2012 of \$253,579,411 (2011: \$292,791,534).

The secured bank loan is repayable by 30 June 2013, as detailed in Note 2(a) and 10. When drawn, the loan is secured by the assets of the Scheme.

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis.

The Scheme's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities is set out below:

LM FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Market risk (Continued)

Interest rate risk (Continued)

SCHEME

	Note	Weighted average interest rate		Floating Interest Rate		Fixed interest rate		Securities contracted to		Securities contracted to		Total
		2012	2011	2012	2011	2012	2011	mature in less than 1 year	more than 1 year but less than 5 years	mature in more than 1 year but less than 5 years	more than 5 years	
		%	%									
Cash and cash equivalents	13(a)	4.15	4.02	8,123,428	18,475,447	-	-	-	-	-	-	18,475,447
Secured mortgage loans (gross)	8	6.21	6.61	-	-	490,865,724	490,865,724	490,865,724	11,365,047	480,838,964	502,230,771	502,230,771
Loan facility	10	15.82	16.82	-	-	(62,399,788)	(62,399,788)	(39,610,078)	-	(39,610,078)	(62,399,788)	(62,399,788)
Total				8,123,428	18,475,447	441,228,886	428,465,936	-	11,365,047	449,352,314	438,306,430	438,306,430

All other financial assets and liabilities are non-interest bearing.

LM FIRST MORTGAGE INCOME FUND
Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Market risk (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity of the Scheme's Statement of Comprehensive Income to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on the interest income for one year, based on the financial instruments held at 30 June 2012.

Accounting assumptions

The basis points sensitivity is based on the historical volatility of changes in interest rates.

2012

	Change in basis points		Sensitivity of interest income (\$'000's)	
	Increase	Decrease	Increase	Decrease
Financial Instruments	50	50	2,596	2,596
	100	100	5,192	5,192

2011

	Change in basis points		Sensitivity of interest income (\$'000's)	
	Increase	Decrease	Increase	Decrease
Financial Instruments	50	50	2,700	2,700
	100	100	5,401	5,401

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Scheme enters into foreign exchange contracts principally to hedge the foreign exchange risk implicit in the value of the investor funds denominated in foreign currencies and to secure a particular exchange rate for a planned purchase or sale of investments. The term of the contracts rarely exceeds twelve months.

The fair value of forward exchange contracts held at 30 June 2012 was a payable of \$129,192 (2011: receivable of \$33,691).

The nominal Australian dollar value of forward exchange contracts held at 30 June 2012 was \$8,512,056 (2011: \$10,570,860).

The table below indicates the currencies to which the Scheme had significant exposure at 30 June 2012 on its monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian Dollar on the Statement of Comprehensive Income, with all other variables held constant.

LMI FIRST MORTGAGE INCOME FUND

Notes to the Financial Statements for the year ended 30 June 2012

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency

Investments in the fund are hedged in the relevant currency against Australian dollar currency movements. The fund manages foreign currency risk through the use of forward foreign exchange contracts (FFEC).

The FFECs are facilitated by several foreign exchange dealers. This reduces currency exposure to the fund and investors. The below table is only applicable if the FFEC facilitator is unable to meet its obligation and the fund therefore seeks an alternative party to transact the FFEC.

Accounting Assumptions- Variability of foreign currency

The sensitivity is based on the volatility of changes in global currency.

Currency	FFEC AUD equivalent in exposure by currency (000's)	2012			
		Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
CAD	-	10	10	-	-
EUR	976	10	10	88	108
GBP	1,559	10	10	142	173
HKD	656	10	10	66	66
JPY	-	10	10	-	-
NZD	3,849	10	10	366	408
SGD	149	10	10	14	17
THB	224	10	10	20	25
TRY	92	10	10	8	10
USD	1,007	10	10	93	110

Currency	FFEC AUD equivalent in exposure by currency (000's)	2011			
		Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	Decrease	Increase	Decrease
CAD	5	10	10	0	1
EUR	1,376	10	10	125	153
GBP	1,889	10	10	172	210
HKD	903	10	10	90	90
JPY	-	10	10	-	-
NZD	4,652	10	10	443	493
SGD	196	10	10	18	22
THB	29	10	10	3	3
TRY	146	10	10	13	16
USD	1,375	10	10	127	150

Equity Risk

The Scheme is not subject to equity risk at 30 June 2012.

LIV FIRST MORTGAGE INCOME FUND
Notes to the Financial Statements for the year ended 30 June 2012

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Scheme's financial assets and liabilities included in the Statement of Financial Position are carried at their fair value as disclosed by class of financial instruments or at amounts that approximate their fair values.

Refer to Note 2 for the methods and assumptions adopted in determining fair values for investments.

Disclosed below is the fair value of the Scheme's financial instruments.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Fair value: The Scheme uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets;

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

	Fair Value				Carrying Amount
2012	Level 1	Level 2	Level 3	Total	
	\$	\$	\$	\$	\$
Financial Assets					
Forward currency contracts	-	-	-	-	-
Total Financial Assets	-	-	-	-	-
Financial Liabilities					
Forward currency contracts	-	129,192	-	129,192	129,192
Total Financial Liabilities	-	129,192	-	129,192	129,192

	Fair Value				Carrying Amount
2011	Level 1	Level 2	Level 3	Total	
	\$	\$	\$	\$	\$
Financial Assets					
Forward currency contracts	-	33,691	-	33,691	33,691
Total Financial Assets	-	33,691	-	33,691	33,691
Financial Liabilities					
Forward currency contracts	-	-	-	-	-
Total Financial Liabilities	-	-	-	-	-

The fair values of currency exchange contracts (forwards and swaps) are calculated by reference to current exchange rates for contracts with similar maturity and risk profiles.

LIM FIRST MORTGAGE INCOME FUND
Notes to the Financial Statements for the year ended 30 June 2012

16. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets and liabilities or commitments as at 30 June 2012.

17. EVENTS AFTER THE STATEMENT OF BALANCE DATE

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2012 or on the results and cash flows of the Scheme for the year ended on that date, other than those detailed below:

(a) Status of distributions payable

As at 30 June 2012, \$4,799,833 of distributions payable related to distributions that were required to be paid under the Scheme's Constitution prior to 30 June 2012. In addition, \$4,655,395 of distributions payable as at 16 November 2012 that were required to be paid under the Scheme's Constitution remain payable. These distributions relate to the months of July, August and September. Since year end, \$0 in distributions payable has been paid relating distributions accrued in the previous period (see to Note 3).

LM FIRST MORTGAGE INCOME FUND

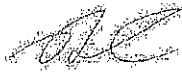
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

- a) The financial statements and notes of the Registered Scheme set out on pages 8 to 46 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the Corporation Regulations 2001; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2012, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
 - (iii) the financial statements and notes to the financial statements are prepared in compliance with the International Financial Reporting Standards as made by the International Accounting Standards Board.
- b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

On behalf of the Board

LM Investment Management Limited.



Peter Drake

Director

Gold Coast

16 November 2012

Independent auditor's report to the unitholders of LM First Mortgage Income Fund

Report on the Financial Report

We have audited the accompanying financial report of LM First Mortgage Income Fund ('the Scheme'), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the responsible entity of the Scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of LM First Mortgage Income Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Scheme at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the Scheme has financing facilities that expire on 30 June 2013. As a result there is significant uncertainty whether the Scheme will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Scheme not continue as a going concern.

Material Uncertainty Regarding Access to External Funding To Finance Projects

Without qualifying our opinion, we draw attention to Note 7 which indicates that the Scheme is currently in negotiations with external financiers to access the funding required to complete projects on which loans and receivables are secured. As a result of these matters there is significant uncertainty whether the Scheme will be able to complete these projects and realise its assets at the amounts stated in the financial report. In addition, the forecast cashflows from these projects are subject to significant risks in relation to timing and amount. This as an area of significant uncertainty and judgement and accordingly, we bring it to your attention.

Material Uncertainty Regarding Declared Distributions

During the period, the Scheme declared distributions of \$16,904,211 to Class B unitholders (the Feeder Funds), as described in Note 3. These distributions have been fully reinvested back into the Scheme by the Feeder Funds during the period. Compliance with the Trust Deed and *Corporations Act 2001* in relation to these distributions is a matter of legal interpretation and the Responsible Entity believes it has an arguable position to support the declaration of these distributions as being fair and reasonable to all classes of unitholders. This as an area of significant judgement and accordingly, we bring it to your attention.

Ernst & Young

Ernst & Young

Paula McLuskie

Paula McLuskie
Partner
Brisbane
16 November 2012

Duplicate

SUPREME COURT OF QUEENSLAND

REGISTRY: Brisbane
NUMBER: BS 10478 of 2011

IN THE MATTER OF EQUITITRUST LIMITED ACN 061 383 944

Applicant: EQUITITRUST LIMITED ACN 061 383 944

AND

Respondents: THE MEMBERS OF THE EQUITITRUST INCOME FUND
ARSN 089 079 854 AND THE MEMBERS OF THE EQUITITRUST
PRIORITY CLASS INCOME FUND ARSN 089 079 729

ORDER

Before: Justice Applegarth

Date: 23 November 2011

Initiating document: Application filed 15 November 2011 and Oral Application made 21 November 2011

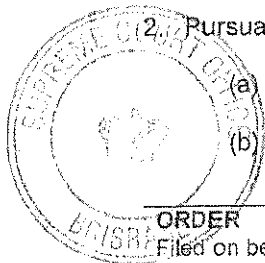
THE ORDER OF THE COURT IS THAT:

1. Pursuant to s.1101B(1) of the *Corporations Act 2001* (Cth) (*the Act*) David Whyte (*Mr Whyte*) be appointed as:

- (a) a receiver of the property of the Equititrust Income Fund (*EIF*); and
- (b) a receiver of the property of the Equititrust Priority Class Income Fund (*EPCIF*).

2. Pursuant to s.601NF(2) of the Act David Whyte (*Mr Whyte*) be appointed as:

- (a) a receiver of the property of the Equititrust Income Fund (*EIF*); and
- (b) a receiver of the property of the Equititrust Priority Class Income Fund (*EPCIF*).



ORDER

Filed on behalf of the Intervener

Form 59 Rule 661

Australian Securities & Investments Commission
Hugh Copley, Litigation Counsel

Level 20, 240 Queen Street, Brisbane Qld 4000
Tel: (07) 3867 4700
Fax: (07) 3867 4725
Ref: K Rodgers (11-40025)

3. Pursuant to s.1101B(1) of the Act, Mr Whyte have, in relation to the property for which he is appointed receiver pursuant to Order 1 above, the powers set out in s.420 of the Act in addition to the powers set out in s.1101B(8)(a) to (c) of the Act.
4. Pursuant to s.601NF(2) of the Act, Mr Whyte have, in relation to the property for which he is appointed receiver pursuant to Order 2 above, the powers set out in s.420 of the Act and the powers set out in s.1101B(8)(a) to (c) of the Act.
5. Pursuant to s.1101B(1) of the Act, Mr Whyte in respect of the appointment made in Order 1 above:
 - (a) be indemnified out of the assets of the EIF in respect of any proper expenses or costs incurred in acting as receiver of the property of the EIF;
 - (b) be indemnified out of the assets of the EIF in respect of any proper expenses or costs incurred in acting as receiver of the property of the EPCIF;
 - (c) be entitled to claim remuneration in respect of the time spent by him and by any servants or agents of BDO who perform work in the receivership of the property of the EIF at rates and amounts to be approved by the Court and be indemnified out of the assets of the EIF in respect of such remuneration;
 - (d) be entitled to claim remuneration in respect of the time spent by him and by any servants or agents of BDO who perform work in the receivership of the property of the EPCIF at rates and amounts to be approved by the Court and be indemnified out of the assets of the EPCIF in respect of such remuneration.
6. Pursuant to s.601NF(2) of the Act, Mr Whyte in respect of the appointment made in Order 2 above:
 - (a) be indemnified out of the assets of the EIF in respect of any proper expenses or costs incurred in acting as receiver of the property of the EIF;
 - (b) be indemnified out of the assets of the EIF in respect of any proper expenses or costs incurred in acting as receiver of the property of the EPCIF;
 - (c) be entitled to claim remuneration in respect of the time spent by him and by any servants or agents of BDO who perform work in the receivership of the property of the EIF at rates and amounts to be approved by the Court and be indemnified out of the assets of the EIF in respect of such remuneration;
 - (d) be entitled to claim remuneration in respect of the time spent by him and by any servants or agents of BDO who perform work in the receivership of the property of the EPCIF at rates and amounts to be approved by the Court and be indemnified out of the assets of the EPCIF in respect of such remuneration.
7. That nothing in this Order prejudices the rights of the National Australia Bank Limited, Commonwealth Bank of Australia Limited or Bank of Scotland International Ltd, pursuant to any securities any of them hold over Equititrust Ltd or the property of the EIF.

8. That by 4pm on Thursday 24 November 2011, Equititrust Ltd publish on its website (www.equititrust.com.au), in pdf form, by way of notice to its members of the EIF and EPCIF a copy of this Order, which publication shall be sufficient notice to members of the EIF and EPCIF of this Order.
9. That the parties appearing on this application, save for ASIC, be paid their costs of and incidental to this Application, to be assessed on the standard basis, out of the EIF.
10. There be general liberty to apply to any person affected by these Orders, including liberty to apply for further directions in accordance with s.601NF(2) of the Act.

Registrar:

A handwritten signature, possibly 'M. D.', enclosed in a circular scribble, with a long vertical line extending downwards from the bottom right of the circle.

Duplicate

SUPREME COURT OF QUEENSLAND

REGISTRY: BRISBANE
NUMBER: BS 10478 OF 2011

IN THE MATTER OF EQUITITRUST LIMITED (RECEIVERS AND MANAGERS
APPOINTED (IN LIQUIDATION) ACN 061 383 944

Applicant: EQUITITRUST LIMITED (RECEIVERS AND MANAGERS
APPOINTED (IN LIQUIDATION) ACN 061 383 944

AND

Respondents: THE MEMBERS OF THE EQUITITRUST INCOME FUND ARSN 089
079 854 AND THE MEMBERS OF THE EQUITITRUST PRIORITY
CLASS INCOME FUND ARSN 089 079 729

ORDER

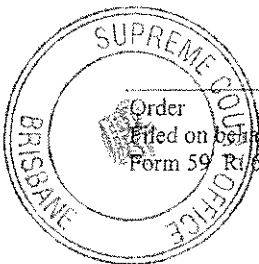
Before: The Honourable Justice Mullins
Date: 25 October 2012
Initiating Document: Application filed 21 September 2012

THE ORDER OF THE COURT IS THAT:

1. Pursuant to subparagraph 3(d) of the Order of the Honourable Justice Applegarth made on 21 November 2011 and subparagraphs 5(c) and 6(c) of the Order of the Honourable Justice Applegarth made on 23 November 2011, the remuneration of David Whyte, for the period 22 November 2011 to 31 August 2012, be fixed in the amount of \$837,103.85 (inclusive of GST); and
2. The costs of and incidental to the application filed on 21 September 2012 be costs in the winding up and the receivership of the Equititrust Income Fund, to be paid out of the assets of the Equititrust Income Fund.

Signed: 

DEPUTY REGISTRAR



GADENS LAWYERS
Level 11, 111 Eagle Street
BRISBANE QLD 4000
Tel No.: 07 3231 1666
Fax No: 07 3229 5850
SZC:JSK:201204781

BNEDOCS Order of Justice Mullins dated 25 October 2012



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Level 18, 300 Queen St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
AUSTRALIA

TO INVESTORS

9 November 2012

EQUITITRUST INCOME FUND ARSN 089 079 854 ("EIF") (RECEIVER APPOINTED) ("The Fund")

I refer to my previous reports and now provide my ninth update to investors on the progress of the winding up of the Fund by me as Court appointed receiver of the property of the Fund.

1. Receipts and Payments

I provide below a summary of the Receipts and Payments of the Fund for the period since my last report of 3 October 2012.

Summary of Receipts and Payments for the Period 3 October 2012 to 4 November 2012			
Opening Cash at Bank			1,502,902.58
Receipts			
Interest Income			1,957.78
Loan Recoveries:			
Rosea Pty Ltd	18,333.33		
Toowoomba (Foundry Shopping Centre) Pty Ltd	76,118.27		
Tweed Central Pty Ltd	395,173.70	489,625.30	
Total Receipts			491,583.08
Payments			
Bank Charges			19.00
Distressed Loan funding:			
Boothers Pty Ltd	3,423.65		
Checkling Pty Ltd	2,920.04		
Corymbia Corporation Pty Ltd	880.00		
Corymbia Estates Pty Ltd	8,796.81		
CTP Pty Ltd	3,630.00		
East Coast Pty Ltd	29,915.81		
Gonfanon Pty Ltd	2,047.65		
Kele Property Group	17,397.92		
Toowoomba (Foundry Shopping Centre) Pty Ltd	716,353.51		

BDO Business Recovery & Insolvency (Qld) Pty Ltd ABN 90 134 036 507 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Business Recovery & Insolvency (Qld) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



Tweed Central Pty Ltd	23,446.52	
Western Land Corporation	22,900.74	
Windsor Turf Pty Ltd	3,300.00	
Wirrina Cove	62,479.50	897,492.15
Equititrust Premium Fund (Receivers and Managers Appointed)		5,000.00
Settlement from Guarantor		
IT expenses		7,395.70
Legal Fees		2,643.90
Office Rental charge		6,188.27
Staff Wages and Reimbursements		11,234.87
Superannuation remittance		7,933.97
Total Payments		937,907.86
Closing Cash at Bank		1,056,577.80

I note that the 'Distressed Loan Funding' relates to marketing costs, agents' fees, consultants' fees and rates and land tax. The incurring of these costs are considered essential in terms of successfully realising the assets subject to the Fund's securities.

2. Realisation of Assets

The realisation of the Fund's assets continues to progress.

As advised in previous reports, this is a public document and therefore to ensure I do not prejudice any ongoing negotiations regarding the sale of the properties, I will not at this time identify individual properties and/or their expected realisable values. However, I summarise sales completed, contracts on foot, current offers accepted and contracts awaiting execution below:

	\$
Sales completed	14,180,806
Thirteen contracts on foot	10,833,946
Two offers accepted, awaiting executed contract/deed of assignment	2,170,000

With respect to the information above, I note the following:

- Five contracts are unconditional with settlement scheduled in November 2012 and gross realisations of \$3.76 million;
- Five contracts are unconditional with settlements scheduled in December 2012 and gross realisations of approximately \$4.04 million;
- One contract is unconditional with settlement scheduled in March 2013 and gross realisations of \$1.6 million;



- A deed of settlement has been executed with \$150,000 received on 18 June 2012 and \$1.1 million to be received on 17 June 2013;
- One contract is unconditional with settlement scheduled in August 2013 and gross realisations of \$320,000;
- A contract is currently being exchanged with gross realisations of approximately \$400,000 anticipated. The agent for the site is continuing to market the remaining lot;
- Documentation is currently being prepared for the transfer of a security interest over a property in exchange for \$1.77 million;

The remaining 8 properties, with the exception of two properties, are currently on the market with one being prepared for the commencement of a sale campaign and the other subject to possession proceedings.

I will continue to update investors on the progress of the sales in my monthly reports to investors.

3. Legal Proceedings

There are currently numerous legal actions on foot including:

- Possession proceedings are underway with respect to a secured property as noted in section 2 of this report;
- Two claims have been filed against the same valuer for negligence and damages in excess of \$10 million. Expert witnesses have been engaged to progress the claims. Any amount recoverable will be sought against a professional indemnity insurance policy;
- A deed of settlement has been executed with respect to a claim against a guarantor. Filing for default judgment against the remaining guarantors is under consideration;
- Monetary judgement has been obtained against a guarantor, however a cross claim has been filed by the borrower with a hearing date scheduled for later in the year;
- Several proceedings are ongoing against a bankrupt/related parties to realise his interest in a property. This is likely to result in a substantial recovery for the fund;
- Collection of a judgement debt has been finalised with a final payment of \$250,000 received;
- An assessment of a costs order obtained against a borrower is ongoing; and
- Other claims are still being considered against borrowers/guarantors to determine if commercial recoveries are achievable.

The actions are expected to realise several million dollars for the benefit of investors although this may take some time to realise.



4. Estimated Return to Investors

I provide below an estimated return to investors of between 15 and 22 cents in the dollar as at 4 November 2012 as follows:

	Low \$000's	High \$000's
Total estimated selling prices	44,471	58,581
Less: Selling costs - marketing and agents fees (3.5%)	(1,556)	(2,050)
Secured creditors (net of cash at bank) and including bank guarantees	(1,195)	(1,195)
Other loan	(3,000)	(3,000)
Land Tax and Rates	(8,377)	(8,377)
Other unsecured creditors	(268)	(268)
Receivers fees	(939)	(939)
Estimated net amount available to investors as at 4 November 2012	29,136	42,752
Total investors units	193,916	193,916
Estimated return in the dollar	\$0.15	\$0.22

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

Subject to the sale of the properties currently on the market and where sale campaigns are to commence and particularly depending on the sale of the two largest properties, I am hopeful that I will be able to commence interim distributions to investors in the first six months of next year. This will be after paying secured creditors, land tax and rates, Receivers fees and the unsecured creditors who rank ahead of investors' interests.

5. Court Application for Remuneration

As advised in my prior updates to investors, an application to the Court for the approval of my remuneration was filed on 21 September 2012.

The application was heard on 25 October 2012 with the Court approving my remuneration for the period from 21 November 2011 to 31 August 2012 in the amount of \$837,103.85 (inclusive of GST), a reduction of \$3,896.75 (inclusive of GST) of the total amount claimed. This reduction followed a submission by counsel on behalf of Equititrust Ltd (In Liquidation)(Receivers & Managers Appointed)("Equititrust") in relation to their view that the time I spent consulting with



my lawyers and reviewing my affidavit to support ASIC's intended winding up application against Equititrust, fell outside the terms of my appointment.

This occurred in February 2012 at a time when the winding up of the Fund was being hampered by the lack of cooperation of the directors who were trying to pursue an alternative strategy. The lack of cooperation was causing an increase in my costs and therefore in my view it was beneficial to investors for Equititrust to be wound up with a view to improving ongoing cooperation of the Responsible Entity in the winding up of the Fund.

A copy of the Court Order approving my remuneration is attached for your information.

I will continue to advise investors of all future applications with respect to seeking approval of my remuneration.

6. Piper Alderman Class Action

I have been advised that Piper Alderman is continuing to progress the claims available to Unit Holders in relation to the Fund's demise. Unit holders wishing to be part of the anticipated action should contact Shaan Palmer of Piper Alderman on (02) 9253 9920.

7. Receiver's Remuneration & Expenses

I attach a remuneration summary covering the period from 1 September 2012 to 4 November 2012 in respect of fees incurred of \$179,153.00 plus outlays of \$14,092.64 plus GST. None of the fees have been drawn to date.

As noted above, on 25 October 2012, the Court approved my remuneration for the period 22 November 2011 to 31 August 2012 in the amount of \$837,103.85 (inclusive of GST). These fees are expected to be paid later this month and after the secured creditors loan is paid in full. A bank guarantee facility of \$1.1M will remain in place with a view to arranging the release of the guarantees in due course or alternatively paying them out.

8. Updating your contact details

If investors wish to update their postal address or bank details, a request should be submitted in writing to the following address.

Equititrust Income Fund (Receiver appointed)
C/- BDO
GPO Box 457
Brisbane QLD 4001

9. Queries

Monthly reports will continue to be uploaded to the websites www.equititrust.com.au and www.equitrustincomefund.com.au.

The remaining staff and consultants engaged by me to assist in the winding up of the fund are located at the following address:



Postal Address: Equititrust Income Fund
Wyndham Building
Level 9, 1 Corporate Court
BUNDALL QLD 4217

Phone: 07 5510 4870
Fax: 07 5510 4907

Andrew Want of this office is, however, the key point of contact for all investor queries.
Andrew can be contacted by the following;

Phone: 07 3237 5999
Email: andrew.want@equititrustincomefund.com.au

Should investors have any queries in relation to the winding up of the Fund, they should contact my office on (07) 3237 5999 or by email at info@bdo.com.au.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'David Whyte', written over a horizontal line.

David Whyte
Receiver

Equitrust Income Fund (Receiver Appointed)
1 September 2012 to 4 November 2012

Employee	Position	Rate	Total Units	Total \$	Administration	Assets	Creditors	Employees	Trade-on
					Units	\$	Units	Units	\$
Whyte, David	Partner	540	125.90	70,504.00	31.10	17,416.00	62.30	0.00	0.00
Somersville, John	Senior Manager	425	148.80	63,240.00	17.50	7,437.50	89.80	0.00	0.00
Brushe, David	Manager	390	2.50	975.00	2.50	975.00	0.00	0.00	0.00
Bulda, Andrew	Supervisor	350	0.50	175.00	0.50	175.00	0.00	0.00	0.00
Demeyere, Chris	Senior Accountant I	310	1.30	403.00	0.00	0.00	0.00	0.00	0.00
Coulston, Jayden	Senior Accountant II	270	21.40	5,778.00	19.10	5,157.00	1.30	0.00	0.00
Wart, Andrew	Senior Accountant II	270	123.50	33,345.00	121.10	33,697.00	0.00	0.00	0.00
Tom Hogbin	Tax consultant	240	0.30	72.00	0.30	72.00	0.00	0.00	0.00
Pembroke, Elle	Accountant I	220	0.90	198.00	0.90	198.00	0.00	0.00	0.00
Jones, Annabel	Accountant II	190	7.70	1,463.00	7.70	1,463.00	0.00	0.00	0.00
TOTAL			432.80	176,133.00	200.70	65,590.50	154.70	1.00	270.00
			GST	17,615.30					
			TOTAL INC GST	193,748.30					
			AVERAGE HOURLY RATE	407.01					
					326.81		477.10		476.18

DISBURSEMENT REPORT
Equitrust Income Fund (Receiver Appointed)
1 September 2012 to 4 November 2012

Item	
Advertising	227.05
Accommodation	209.54
Airfares	329.28
Courier	255.49
Fax	7.00
Mileage	391.85
Parking	174.55
Photocopy	6,801.00
Postage	3,822.72
Printing	721.80
Search Fee	726.99
Travel - Car Rental	374.52
Travel - Taxi	50.85
Sub Total	14,092.64
GST	1,409.26
TOTAL	15,501.90

Duplicate

SUPREME COURT OF QUEENSLAND

REGISTRY: BRISBANE
NUMBER: BS 10478 OF 2011

IN THE MATTER OF EQUITITRUST LIMITED (RECEIVERS AND MANAGERS
APPOINTED (IN LIQUIDATION) ACN 061 383 944

Applicant: EQUITITRUST LIMITED (RECEIVERS AND MANAGERS
APPOINTED (IN LIQUIDATION) ACN 061 383 944

AND

Respondents: THE MEMBERS OF THE EQUITITRUST INCOME FUND ARSN 089
079 854 AND THE MEMBERS OF THE EQUITITRUST PRIORITY
CLASS INCOME FUND ARSN 089 079 729

ORDER

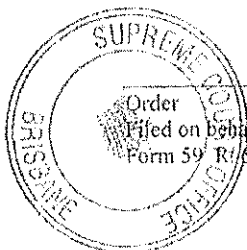
Before: The Honourable Justice Mullins
Date: 25 October 2012
Initiating Document: Application filed 21 September 2012

THE ORDER OF THE COURT IS THAT:

1. Pursuant to subparagraph 3(d) of the Order of the Honourable Justice Applegarth made on 21 November 2011 and subparagraphs 5(c) and 6(c) of the Order of the Honourable Justice Applegarth made on 23 November 2011, the remuneration of David Whyte, for the period 22 November 2011 to 31 August 2012, be fixed in the amount of \$837,103.85 (inclusive of GST); and
2. The costs of and incidental to the application filed on 21 September 2012 be costs in the winding up and the receivership of the Equititrust Income Fund, to be paid out of the assets of the Equititrust Income Fund.

Signed: 

DEPUTY REGISTRAR



GADENS LAWYERS
Level 11, 111 Eagle Street
BRISBANE QLD 4000
Tel No.: 07 3231 1666
Fax No: 07 3229 5850
SZC:JSK:201204781

BNEDOCS Order of Justice Mullins dated 25 October 2012



Tel: +61 7 3237 5999
 Fax: +61 7 3221 9227
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Level 18, 300 Queen St
 Brisbane QLD 4000
 GPO Box 457 Brisbane QLD 4001
 AUSTRALIA

TO INVESTORS

4 January 2013

EQUITITRUST INCOME FUND ARSN 089 079 854 (RECEIVER APPOINTED) ("the Fund" or "EIF")

I refer to my previous reports and now provide my tenth update to investors since my appointment as Court appointed Receiver and person responsible for winding up the EIF on 21 November 2011.

With it being in excess of one year since my appointment, this report summarises the actions taken to date and remaining issues to be dealt with to finalise the winding up. My last report to investors was on 9 November 2012. A December 2012 report was delayed due to significant work being undertaken to dispose of a major asset in South Australia (commented upon further below) and the Christmas break.

1. Property Realisations

There have been 32 properties sold since my appointment with total gross realisations of approximately \$19.6 million and contracts accepted for six properties totalling approximately \$7.3 million to date as detailed in the tables below:

1.1 Loan Book Realisations

Loan Number	Loan (Borrower)	Security location	Contract Sale Price (Excl. GST where applicable)
Securities sold/refinanced			
105648	Mountbell	Ipswich, QLD	545,500
105653	Tweed Central	Murwillumbah, NSW (22 lots)	6,227,285
105667	Resort Corp Admin	Kingscliff, NSW	885,000
105680	Morevale Land	Glenella, QLD	2,250,000
105717	Checking	Richmond, NSW	2,100,000
105746	Western Land Corporation	Redbank Plains QLD	925,000
105652	Kristine Newton	Lennox Heads	2,750,000
105482	Gamp Developments Pty Ltd	Bowen, QLD	500,000
105622	National Resorts	Bowen, QLD	1,772,295
105004	Taylor AG & SK (refinance)	Birkdale QLD	207,584
105264	East Coast Pty Ltd	Yamba, NSW	1,500,000
			\$19,662,664

There was a significant amount of rates and land tax outstanding on the above properties, which was required to be discharged at settlement.



1.2 Properties Under Contract/Subject to Deed of Settlement

As this is a public document, to ensure I do not prejudice completion of the contracts, I will not at this time identify the individual contract values.

Loan Number	Loan (Borrower)	Security location	Settlement Date
105735	Valencia Grove	Griffith, NSW	To be confirmed
105549	Corymbia Estates	Carbrook QLD	30 January 2013
105657	Rosea Pty Ltd	Wongawallien, QLD	17 June 2013
105696	Morvale Land	Port Augusta, SA	31 March 2013
105721	Kele Property Group	Port Macquarie, NSW	7 January 2013
105653	Tweed Central	Murwillumbah, NSW	29 August 2013

1.3 Properties Remaining to be Sold

A summary of the eight remaining properties to be realised along with the key outstanding issues to be resolved with respect to each property is provided below. Again, as this is a public document and to ensure I do not prejudice any ongoing negotiations regarding the sale of the properties, I will not at this time identify their expected realisable values.

(i) Wirrina Cove

Wirrina Corporation Pty Ltd and the EIF are the mortgagees in possession of the Wirrina Cove assets which comprise a resort, golf course, conference centre, caravan park, marina, residential land and rural land.

The resort and surrounding assets have been under the control of the mortgagees since at least 2010.

There was an unsuccessful marketing campaign conducted in September 2011 with the assets having been on the market since that time with no reasonable offers received.

In order to achieve a better outcome for investors it was decided to "break up" the assets and offer the individual components for sale and after resolving the following issues:

- Removal of caveats registered on titles in order to effect a sale of land:- an application to the Supreme Court of South Australia has been made and an Order obtained directing the removal of the caveats. There are still caveats registered on the titles of the marina berth under leases, which are in the process of being removed.
- Recovery of outstanding water and sewerage levies from the condominium body corporate and establishing an agreement going forward:- the condominiums (privately owned) had not paid water and sewerage levies since at least 2008. An agreement has been entered into with the condominium body corporate with respect to the outstanding levies and ongoing billings.
- Recovery of outstanding levies/re-entry of delinquent under leases with respect to marina berths.
- Applying for a new Section 23 Authorisation pursuant to the *Aboriginal Heritage Act 1988*:- the residential land at Wirrina Cove includes 32 allotments on the ocean



front, 21 of which are located on an Aboriginal Site. A Section 23 Authorisation had previously been granted in relation to the relevant allotments to allow a developer to build on the land, however the authorisation did not extend to third parties who acquired the land. As it was not possible to sell the land with the existing authorisation, this authorisation has been revoked and a new authorisation has been applied for, which is anticipated to be granted early in 2013.

- Transfer of water and sewerage operations to a third party supplier:- the mortgagee of the land, Wirrina Corporation Pty Ltd (a wholly owned subsidiary of EIF), currently provides water and sewerage services to land owners at Wirrina Cove. Under the *Water Industry Act 2012 (SA)*, the water industry regulator, Essential Services Commission of SA, requires suppliers of water and sewerage services to be licensed from 1 January 2013. An exemption from a licence has been approved until 30 June 2013 and pending the transfer of the water and sewerage operations to a third party supplier.

Ray White have been engaged to sell the assets at Wirrina Cove and an expressions of interest campaign closed in this respect on 19 December 2012.

Details of the sale are located at <http://wirrinacove.raywhite.com>.

The following assets are available for sale either individually or in one line:

- Resort, golf course and conference centre;
- Caravan park;
- Marina head lease;
- Approximately 100 marina berth sub leases;
- 75 residential lots; and
- 6 undeveloped lots ranging from 2 to 237 hectares in area.

The sale campaign was extensive and resulted in approximately 500 enquiries with 134 expressions of interest received.

At the time of writing this report, the acceptable expressions of interest received are being converted to contracts of sale.

(ii) Toowoomba Foundry

The property comprises a 50,290 square metre site situated within the City of Toowoomba QLD, which includes a closed down foundry, offices and warehouses.

An 'Offers to Purchase' campaign conducted by Ray White on behalf of the liquidators of the owner of the site closed on 6 December 2012. The marketing agent is currently finalising negotiations with those parties that submitted offers with a view to executing contracts of sale in the next couple of weeks.

(iii) Collingwood Park

The property is an englobo residential development site approximately 77 hectares in size situated in the suburb of Collingwood Park, QLD.

A highly conditional offer for the property was received in May 2012, however following legal advice, the offer was not accepted and a new marketing campaign was undertaken in September and October 2012. Offers have been received for the property, however at



this stage are not at a level that is acceptable to the Receiver. Discussions are ongoing in this respect.

(iv) Maclean

The property is a residential development site approximately 14 hectares in size situated in the town of Maclean, NSW.

The property was passed in at auction on 5 December 2012. The market feedback leading up to, and following the auction expressed some concerns about development costs due to the property being flood prone and having to bring fill onto the site. Discussions are ongoing with interested parties who have been advised that in accordance with the current approvals, no fill is required to be brought onto the site.

The existing development approval is currently being extended and a feasibility study conducted to determine a residual land value.

(v) Cornwallis and Richmond

The properties include a turf farm and development site in Cornwallis, NSW and Richmond, NSW respectively. Both properties are in the control of a Receiver and Manager.

A tender campaign has been undertaken by the Receiver with no offers accepted to date. The third related property was sold by the Receiver and Manager.

(vi) Murwillumbah

There is one remaining lot (23 lots have been sold/under contract to date) of vacant industrial land at Murwillumbah, NSW. An offer has been accepted for this final lot and a contract of sale is being finalised with an expected settlement date of 21 January 2013.

(vii) Gold Coast

The property consists of a residential house and land and is currently subject to possession proceedings, which is to be heard at the end of January 2013.

1.4 Legal Proceedings

There are currently several legal actions on foot. I am unable to provide specific details with respect to each matter and the expected outcome of same. However, I provide an overview below:

- Possession proceedings are underway with respect to a secured property with the matter to be heard at the end of January 2013;
- Two claims have been filed against the same valuer for negligence and damages in excess of \$10 million. Expert witnesses are currently preparing reports to progress the claims. Any amount recoverable will be sought against a professional indemnity insurance policy;
- A deed of settlement has been executed with respect to a claim against a guarantor. Filing for default judgment against the remaining guarantors is underway;
- Monetary judgement has been obtained against a guarantor, however a cross claim has been filed by the borrower. The matter is likely to go to trial in early 2013;



- Several proceedings are ongoing against a bankrupt/related parties to realise his interest in a property. This is likely to result in a substantial recovery for the Fund; and
- Other claims are still being considered against borrowers/guarantors/valuers to determine if commercial recoveries are achievable.

The actions are expected to realise several million dollars for the benefit of Investors, although this may take some time to realise.

1.5 Overhead Expenses/Services Agreement

Upon my appointment, it was determined that costs being incurred by Equititrust Limited (Receivers and Managers Appointed) (In Liquidation) ("EL") as Responsible Entity ("RE") for the EIF was approximately \$500,000 per month, which in my view was extremely high in relation to the management of 29 loans and for the winding up of the EIF.

My ability to control overheads was limited because staff and consultants were not engaged directly by EL as RE of the EIF but were engaged by a separate company, ECG Administration Pty Ltd (ECGA) on behalf of the RE. Administrators were appointed to ECGA on 15 February 2012.

In order to reduce and to obtain greater control of overhead costs associated with the employment of staff and consultants and the provision of plant and equipment, I negotiated a services agreement. The services agreement provided that an entity would provide certain services to EL to enable it to carry on the business of the RE for the purposes of the winding down of the Fund, such as day-to-day management, accounting and taxation reporting, information technology services, corporate administration services as well as the provision of staff and consultants and the use of the business premises from which EL operated. As a result of the implementation of the services agreement, EL's operating costs were reduced to approximately \$147,000 per month. Under the terms of the services agreement, the intention had been for the staff and consultants to be transferred to the new service provider, however this had not been completed at the time of the administrators' appointment to ECGA. As a result, the staff and consultants were terminated by the administrators on 16 March 2012 and I employed 7 former staff/consultants direct as receiver of the EIF.

Following ongoing reductions of staff/consultants and the premises move, and prior to termination of the services agreement, the monthly overhead costs had been reduced to between \$65K and \$70K per month. This monthly overhead cost has reduced as the number of staff/consultants decreased as the loan book was realised.

From 21 December 2012, there will be one remaining staff member assisting plus an IT consultant with the winding up of the Fund, which will reduce overheads further to approximately \$21,000 per month. It is anticipated that the remaining staff member will finish up by the end of March 2013 resulting in the closure of the Bundall office and a reduction of overhead costs to approximately \$7,200 a month, which will relate to maintenance of the IT infrastructure.



2. Creditor Claims

2.1 Secured Creditors

As at the date of my appointment, the debt due to secured creditors totalled approximately \$9.5 million. The secured creditors' claims have now been discharged, with the exception of approximately \$1.1 million in respect of bank guarantees issued by the National Australia Bank.

The bank guarantees support bonds held by various Councils with respect to certain development sites. I am currently investigating the action required for the bonds to be released by the respective Councils.

2.2 Other Creditors

Other creditors that must be paid in priority to Investors include:

- Rates and land tax against certain properties to be realised;
- Trade creditors, which relate to liabilities necessarily incurred in the winding up of the Fund;
- Any other creditors outstanding at the date of my appointment; and
- Receiver's remuneration and outlays.

There is a matter to be resolved with respect to an amount advanced by the McIvor Superannuation Fund to the EIF for approximately \$2.46m. The amount was advanced in or around February 2011 pursuant to a loan agreement, which provides for an interest charge of 15% per annum. The current balance of the loan is approximately \$3.3 million. Should it be substantiated that the McIvor Superannuation Fund has a valid claim, this amount will rank in priority to Investors.

2.3 Claims by the Liquidators of EL

The liquidators of EL, Hall Chadwick, have lodged an application for directions with the Court in relation to the extent to which they are entitled to be indemnified out of EIF's assets for remuneration and expenses incurred by them as Administrators totalling approximately \$805,000. Their application is scheduled to be heard in February 2013, however as they failed to meet the deadline to serve the application on me then the hearing is likely to be adjourned.

I have previously queried the basis of their claims and their right to claim against the EIF's assets and bearing in mind:

- I was already appointed to wind up the EIF at the time of their appointment and was the Receiver of the EIF's assets;
- The statements made by Richard Albarran at the first meeting of creditors where he advised Investors of the EIF that his costs and expenses would not come out of the Fund;
- The Court Order of 29 February 2012 (which the Administrators consented to) and which clarified the roles of the various insolvency practitioners in order to save the duplication of costs; and



- Richard Albarran's confirmation at the second meeting of creditors that if Hall Chadwick were appointed Liquidators of EL they would not seek reimbursement of any costs from the EIF as Liquidators.

3. Piper Alderman Class Action

I have been advised that Piper Alderman is continuing to progress the claims available to Unit Holders in relation to the Fund's demise. Unit holders wishing to be part of the anticipated action should contact Shaan Palmer of Piper Alderman on (02) 9253 9920.

4. Receipts and Payments

I provide below a summary of the Receipts and Payments of the Fund for the period since my appointment on 21 November 2011 to 31 December 2012.

Summary of Receipts and Payments for the Period 21 November 2011 to 31 December 2012		
Receipts		
Interest Income		60,133.06
<i>Loan Recoveries:</i>		
Checkling Pty Ltd	1,709,820.00	
Corymbia Corporation Pty Ltd	11,887.64	
Corymbia Estates Pty Ltd	84,316.62	
East Coast Pty Ltd	1,731,129.80	
Elysian Marketing Pty Ltd	412,821.57	
Gamp Developments Pty Ltd	481,996.99	
Hollyander	344,457.88	
Kristine Newton	2,665,906.97	
Morvale Land Pty Ltd	2,000,000.00	
Mountbell Pty Ltd	641,481.75	
Resort Corporation Australia (No 2) Pty Ltd	823,645.90	
Rosea Pty Ltd	415,416.62	
National Resorts Corporation	1,772,295.45	
Taylor, AG & SK	215,438.34	
Toowoomba (Foundry Shopping Centre) Pty Ltd	735,297.49	
Tweed Central Pty Ltd	6,269,332.23	
Valencia Grove Pty Ltd	16,204.63	
Western Land Corporation	1,019,968.62	21,351,418.50
Petty Cash on hand		69.10
<i>Other Income:</i>		
Pre-appointment ATO lodgements	69,453.00	
Fees earned from Release of Mortgage	550.00	70,003.00



Refunds received	360.50
Transfer from Pre-appointment accounts	1,263,719.13
Total Receipts	22,745,703.29

Payments

Bank Charges		53,246.72
Consultant fees		897.00
<i>Distressed Loan funding:</i>		
Boothers Pty Ltd	41,358.40	
Checkling Pty Ltd	230,638.19	
Corymbia Corporation Pty Ltd	462,878.83	
Corymbia Estates Pty Ltd	66,708.25	
CTP Pty Ltd	21,571.00	
East Coast Pty Ltd	391,432.40	
Gamp Developments Pty Ltd	108,558.74	
Glenrowan Land Pty Ltd	4,215.00	
Gonfanon Pty Ltd	10,678.62	
Kele Property Group (Port	47,865.58	
Morvale Land Pty Ltd	55,735.66	
Mountbell Pty Ltd	180,436.78	
Newton, Kristine Lorraine	4,546.18	
Resort Corporation Australia (No 2) Pty Ltd	117,136.25	
Toowoomba (Foundry Shopping Centre) Pty Ltd	1,108,786.85	
Tweed Central Pty Ltd	862,026.10	
Valencia Grove Pty Ltd	150,309.13	
Western Land Corporation	265,312.72	
Windsor Turf Pty Ltd	166,503.72	
Wirrina Cove	2,117,631.32	6,414,329.72
Office Establishment expenses		14,909.51
Document Production		6,763.86
GST Paid		322,921.00
Insurance		28,212.73
IT expenses		97,073.83
Legal Fees		931,923.44
Office Rental charge		74,986.01
PAYG Paid		76,803.00
<i>Receivers Fees (Court approved)</i>		
Remuneration	837,103.85	
Outlays	20,409.09 ✓	857,512.94
<i>Reimbursement of Expenses - Equititrust Limited</i>		
Pre-appointment (prior to 21 November 2011)	653,867.63	



to 31 December 2012

Post-appointment (subsequent to 21 November 2011)	305,682.62	959,550.25
Secured Creditor Fees and Charges (Bill Facility)		600,527.80
Secured Creditor distribution		
Commonwealth Bank of Australia	54,409.25	
National Australia Bank	8,400,000.00	8,454,409.25
Statutory Fees		1,199.00
Superannuation Paid		22,270.21
Telephone, Fax & Internet		2,494.80
Wages & associated reimbursements		279,559.08 ✓
Total Payments		19,199,590.15
 Closing Cash at Bank		 3,546,113.14

I note that the 'Distressed Loan Funding' relates to marketing costs, agents' fees, consultants' fees, legal fees and rates and land tax. The incurring of these costs are considered essential in terms of successfully realising the assets subject to the Fund's securities.

Toowoomba (Foundry Shopping Centre) Pty Ltd includes rates of approximately \$955,000, insurance of approximately \$65,000 and marketing costs of approximately \$40,000.

Wirrina Cove includes ongoing trading expenses of approximately \$984,000, marketing expenses of approximately \$367,000, insurance of approximately \$229,000, legal expenses of approximately \$180,000 and Pay as You Go withholding tax of approximately \$285,000.

5. Estimated Return to Investors

I provide below an estimated return to Investors of between 11 and 19 cents in the dollar as at 31 December 2012 as follows:

	Low \$000's	High \$000's
Total estimated selling prices	32,145	49,205
Less: Selling costs - marketing and agents fees (3.5%)	(1,125)	(1,722)
Bank Guarantees (net of cash at bank)	2,446	2,446
Other loan	(3,300)	(3,300)
Land Tax and Rates	(8,211)	(8,211)
Other unsecured creditors	(587)	(587)
Receivers fees	(372)	(372)



Estimated net amount available to Investors as at 31 December 2012	20,996	37,459
Total investor units	193,916	193,916
Estimated return in the dollar	\$0.11	\$0.19

The estimated return in the dollar has reduced from between 15 and 22 cents in the dollar as provided in my 9th report to Investors dated 9 November 2012 to between 11 and 19 cents in the dollar primarily due to a revision of the estimated values of certain property securities (based on offers received being less than the professional valuations held) and the accrual of outstanding rates and land tax.

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

Subject to the sale of the properties currently on the market and where sale campaigns are to commence and particularly depending on the sale of the two largest properties, I am hopeful that I will be able to commence interim distributions to Investors before 30 June 2013. This will be after paying secured creditors, land tax and rates, Receivers fees and the unsecured creditors who rank ahead of Investors' interests.

6. Receiver's Remuneration and Expenses

As advised in my prior updates to Investors, an application to the Court for the approval of my remuneration was filed on 21 September 2012.

The application was heard on 25 October 2012 with the Court approving my remuneration for the period from 21 November 2011 to 31 August 2012 in the amount of \$837,103.85 (inclusive of GST). My fees for this period have now been paid.

I anticipate that my next application for approval of my remuneration will be in January 2013. I will continue to advise Investors of all future applications with respect to seeking approval of my remuneration.

I attach a summary of my current remuneration and outlays outstanding for the period 1 September 2012 to 31 December 2012. My remuneration incurred during this period totals \$372,478 plus outlays of \$22,773 plus GST.

7. Finalisation

The finalisation of the winding up of the Fund will include the following:

- (i) Realise the remaining assets of the Fund noted in section 1.2 and 1.3 of this report, which I anticipate will be completed this year;
- (ii) Finalise the remaining legal proceedings and other claims where commercial recoveries are considered achievable. The time frames to finalise these matters will primarily be determined by the Courts;



- (iii) Pay outstanding creditor claims that have a priority over Investors;
- (iv) Distribute surplus proceeds to Investors in proportion to the number of units of which they are the registered holder. As noted in section 6 of this report, I anticipate that an interim distribution will be made to Investors by 30 June 2013. A final distribution to Investors will be made once all assets have been realised; and
- (v) Once the winding up is complete, a registered company auditor will be engaged to audit the final accounts of the Fund. A copy of the report prepared by the auditor will be sent to Investors within 30 days after the report is received from the auditor.

8. Updating your contact details

If Investors wish to update their postal address or bank details, a request should be submitted in writing to the following address.

Equititrust Income Fund (Receiver appointed)
C/- BDO
GPO Box 457
Brisbane QLD 4001

9. Queries

Monthly reports will continue to be uploaded to the websites www.equititrust.com.au and www.equitrustincomefund.com.au.

The remaining staff engaged by me to assist in the winding up of the Fund are located at the following address:

Postal Address: Equititrust Income Fund	Phone: 07 5510 4870
Wyndham Building	Fax: 07 5510 4907
Level 9, 1 Corporate Court	
BUNDALL QLD 4217	

Andrew Want of this office is, however, the key point of contact for all investor queries. Andrew can be contacted by the following;

Phone: 07 3237 5999
Email: andrew.want@equitrustincomefund.com.au

Should Investors have any queries in relation to the winding up of the Fund, they should contact my office on (07) 3237 5999 or by email at info@bdo.com.au.

Yours faithfully,

David Whyte
Receiver

Equitrust Income Fund (Receiver Appointed)
1 September 2012 to 31 December 2012

Employee	Position	Rate	Total Units	Total \$	Administration	Admin	Charters	Employer	Taxation
Whyte, David	Partner	560	279.70	156,632.00	42.40	23,744.00	190.20	106,517.00	39.00
Somerville, John	Senior Manager	425	316.80	134,640.00	35.00	14,875.00	212.60	96,355.00	51.10
Brushe, David	Manager	390	2.50	975.00	0.50	975.00	0.00	0.00	0.00
Bulda, Andrew	Supervisor	350	0.50	175.00	0.50	175.00	0.00	0.00	0.00
Denney, Chris	Senior Accountant I	310	1.30	403.00	0.00	0.00	1.30	403.00	0.00
Coulston, Jayden	Senior Accountant II	270	24.70	6,669.00	22.40	6,048.00	1.30	351.00	0.00
Ward, Andrew	Tax Consultant	270	262.10	70,767.00	250.60	67,662.00	1.30	351.00	0.00
Hogbin, Tom	Accountant I	240	0.30	72.00	0.30	72.00	0.00	0.00	0.00
Michalk, Dean	Accountant I	220	1.40	308.00	0.00	0.00	0.00	0.00	0.00
Penbroke, Elle	Accountant II	220	1.70	374.00	1.70	374.00	0.00	0.00	0.00
Jones, Annabel		190	7.70	1,463.00	7.70	1,463.00	0.00	0.00	0.00
TOTAL			1,937.70	322,478.00	1,031.10	135,388.00	406.70	197,972.00	95.20
			GST	37,247.80					
			TOTAL INC. GST	409,725.80					
			AVERAGE HOURLY RATE	414.46					
					317.29	438.78	410.39	270.00	489.90

DISBURSEMENT REPORT

Equitrust Income Fund (Receiver Appointed)
1 September 2012 to 31 December 2012

Item	Rate
Airfares	3,476.28
Courier	337.66
Fax	7.00
Mileage	1,242.85
Parking	361.82
Photocopy	9,188.70
Postage	4,881.87
Search Fee	870.43
Statutory Advertising	1,069.31
Travel - Accommodation	209.54
Travel - Car Rental	1,077.60
Travel - Taxi	50.85
Sub Total	22,773.91
GST	2,277.39
TOTAL	25,051.30



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AUSTRALIA

TO INVESTORS

28 February 2013

EQUITITRUST INCOME FUND ARSN 089 079 854 (RECEIVER APPOINTED) ("the Fund" or "EIF")

I refer to my previous reports and now provide my eleventh update to investors since my appointment as Court appointed Receiver and person responsible for winding up the EIF on 21 November 2011.

1. Property Realisations

There have been 34 properties sold since my appointment with total gross realisations of approximately \$20.9 million as detailed in the table below:

1.1 Loan Book Realisations

Loan Number	Loan (Borrower)	Security location	Contract Sale Price (Excl. GST where applicable)
Securities sold/refinanced			
105648	Mountbell	Ipswich, QLD	545,500
105653	Tweed Central	Murwillumbah, NSW (23 lots)	6,612,285
105667	Resort Corp Admin	Kingscliff, NSW	885,000
105680	Morevale Land	Glenella, QLD	2,250,000
105717	Checkling	Richmond, NSW	2,100,000
105746	Western Land Corporation	Redbank Plains QLD	925,000
105652	Kristine Newton	Lennox Heads	2,750,000
105482	Gamp Developments Pty Ltd	Bowen, QLD	500,000
105622	National Resorts	Bowen, QLD	1,772,295
105004	Taylor AG & SK (refinance)	Birkdale QLD	207,584
105264	East Coast Pty Ltd	Yamba, NSW	1,500,000
105721	Kele Property Group	Port Macquarie, NSW	880,000
			\$20,927,164

There has been a significant amount of rates and land tax outstanding on the above properties, which was required to be discharged at settlement.



1.2 Properties Under Contract/Subject to Deed of Settlement

As this is a public document and to ensure I do not prejudice completion of the contracts, I will not at this time identify the individual contract values.

Loan Number	Loan (Borrower)	Security location	Settlement Date
105735	Valencia Grove	Griffith, NSW	20 March 2013
105549	Corymbia Estates	Carbrook QLD	31 March 2013
105657	Rosea Pty Ltd	Wongawallan, QLD	17 June 2013
105696	Morvale Land	Port Augusta, SA	31 March 2013
105653	Tweed Central	Murwillumbah, NSW	29 August 2013
105739	Sunset Cove Developments	Wirrina Cove, SA	Various

The status of the contracts/accepted offers with respect to the Wirrina Cove property is discussed further in section 1.3 of this report.

1.3 Properties Remaining to be Sold

A summary of the status of the six remaining properties to be realised is provided below. Again, as this is a public document and to ensure I do not prejudice any ongoing negotiations regarding the sale of the properties, I will not at this time identify their expected realisable values.

(i) Wirrina Cove

As advised in my tenth report to Investors, Ray White were engaged to sell the assets at Wirrina Cove. At the time of writing this report, a total of 105 offers have been accepted and/or contracts exchanged totalling approximately \$6.88 million with respect to residential land, rural land and marina berth under leases. A summary is provided below.

	Offers accepted/contracts exchanged (number)	Lots/marina berths remaining (number)
Marina berths	49	58
Residential land	53	22
Rural land	2	0
Caravan Park	1	0
Total	105	80

Discussions are ongoing with parties interested in acquiring the Resort, Golf Course, and Conference Centre.

There are still a number of issues that are currently being resolved in order to maximise the realisable value of the assets including:

- Removal of caveats registered on titles in order to effect a sale of the land and/or the registering of marina berth under leases.



- Recovery of outstanding levies/re-entry of delinquent under leases with respect to marina berths.
- Obtaining a new Section 23 Authorisation pursuant to the *Aboriginal Heritage Act 1988* for 32 allotments on the ocean front (Esplanade lots), 21 of which are located on an Aboriginal Site.
- Transfer of water and sewerage operations to Yankalilla District Council are currently in advanced stages of negotiations. Council agreed at its meeting on 21 February 2013 to take over the water and sewerage infrastructure. This transfer needs to occur to effectuate settlement of the residential land contracts.

(ii) Toowoomba Foundry

The marketing agent is currently finalising negotiations with an interested party with a contract offer expected within the next few days.

(iii) Collingwood Park

A contract of sale has been submitted to a party for consideration with negotiations ongoing with other parties who have expressed an interest in the property.

(iv) Maclean

Negotiations are ongoing with interested parties with a contract offer expected within the next few days.

(v) Cornwallis and Richmond

The Receiver will shortly commence a further sale campaign for both properties.

(vi) Gold Coast

The property consists of a residential house and land and is subject to possession proceedings, which are currently on foot. The proceedings were defended and are now subject to me lodging a claim and statement of claim by 18 March 2013 with mediation to take place by 7 June 2013.

1.4 Legal Proceedings

As advised in my tenth report to Investors, there are several legal actions currently on foot. I am unable to provide specific details with respect to each matter and the expected outcome of same. However, I provide an overview below:

- As indicated above, possession proceedings are underway with respect to a secured property. Mediation is to take place by 7 June 2013 after the claim is lodged and responded to;
- Two claims have been filed against the same valuer for negligence and damages in excess of \$10 million. Expert witnesses are currently finalising reports to progress the claims. Any amount recoverable will be sought against a professional indemnity insurance policy;



- A deed of settlement has been executed with respect to a claim against a guarantor. Default judgment against the remaining guarantors has been obtained and letters of demand have been served;
- Monetary judgement has been obtained against a guarantor, however a cross claim has been filed by the borrower. The matter is likely to go to trial in early/mid 2013 once evidence has been considered;
- Several proceedings are ongoing against a bankrupt/related parties to realise an interest in the surplus proceeds from the sale of a property. This is likely to result in a substantial recovery for the Fund; and
- Other claims are still being considered against borrowers/guarantors/valuers to determine if commercial recoveries are achievable.

Given the nature of these matters, they are likely to take some time to resolve. However, it is expected that the actions will realise several million dollars for the benefit of Investors.

2. Creditor Claims

2.1 Secured Creditors

As advised in my tenth report to Investors, secured creditors' claims have been discharged, with the exception of approximately \$1.1 million in respect of bank guarantees issued by the National Australia Bank.

The bank guarantees support bonds held by various Councils with respect to certain development sites. Discussions are taking place with the councils to determine when the guarantees may be released.

2.2 Other Creditors

As advised in my tenth report to Investors, there are a number of creditors that must be paid in priority to Investors, which include:

- Rates and land tax against certain properties to be realised;
- Trade creditors, which relate to liabilities necessarily incurred in the winding up of the Fund;
- Any other creditors outstanding at the date of my appointment; and
- Receiver's remuneration and outlays.

I am still investigating the amount advanced by the Mclvor Superannuation Fund to the EIF, the current balance of which is approximately \$3.3 million. Should it be substantiated that the Mclvor Superannuation Fund has a valid claim, this amount will rank in priority to Investors.

2.3 Claims by the Liquidators of EL

As advised in my tenth report to Investors, the liquidators of EL, Hall Chadwick, lodged an application for directions with the Court in relation to the extent to which they are entitled to



be indemnified out of EIF's assets for remuneration and expenses incurred by them as Administrators totalling approximately \$805,000.

Hall Chadwick has not filed the application for directions as previously foreshadowed and the Court has now adjourned the hearing to a date to be fixed. It is therefore unclear if this will proceed.

3. Piper Alderman Class Action

Piper Alderman has provided the following update:

"Class Action

Piper Alderman has completed their preliminary investigations and have finalised the principal claims to be brought against various parties for the benefit of unit holders in relation to the losses sustained to the Equititrust Income Fund (the Fund). Prior to the commencement of the claims (and with a view to obtaining further information and documentation relevant to the prosecution of the claims), Piper Alderman intend to undertake public examinations, which involves obtaining documentation through the court process from parties associated with Equititrust Limited (ET) and the Fund and examining relevant persons in court such as the former directors and auditors of Equititrust and the Fund. To this end, Piper Alderman is presently liaising with Hall Chadwick (ET's liquidators) with a view to collectively undertaking examinations. Piper Alderman has also taken action to obtain the requisite authority from ASIC to undertake examinations independently of Hall Chadwick in the event that the dealings with Hall Chadwick do not eventuate in a collaborative approach. Further, if the examinations do not eventuate in the short term, the claims may be instituted as presently formulated.

Contact

Should you have any questions about the claims, please contact William Nolan (Tel) 02 9253 9921; (e-mail) wnolan@piperalderman.com.au

4. Receipts and Payments

I provide below a summary of the Receipts and Payments of the Fund for the period 1 January 2013 to 31 January 2013.

Summary of Receipts and Payments for the Period 1 January 2013 to 31 January 2013	
Opening Cash at Bank	3,546,113.14
Receipts	
Interest Income	5,764.76
Loan Recoveries:	
Kele Property Group (Port Macquarie) Pty Ltd	1,098,741.72
Morvale Land Pty Ltd	1,636.60
Rosea Pty Ltd	18,333.33



Toowoomba (Foundry Shopping Centre) Pty Ltd	3,527.33	
Tweed Central Pty Ltd	491,360.94	
Valencia Grove Pty Ltd	354,000.00	1,967,599.92
Receipt of Monies held in Trust - Legal		8,172.55
Total Receipts		1,981,537.23

Payments

Bank Charges		24.40
<i>Distressed Loan funding:</i>		
Boothers Pty Ltd	5,424.58	
Checkling Pty Ltd	66.00	
Corymbia Corporation Pty Ltd	22,076.92	
Corymbia Estates Pty Ltd	9,873.94	
East Coast Pty Ltd	2,640.00	
Kele Property Group (Port Macquarie) Pty Ltd	306,174.11	
Morvale Land Pty Ltd	1,400.52	
National Resorts Corporation	8,311.05	
Toowoomba (Foundry Shopping Centre) Pty Ltd	10,284.08	
Tweed Central Pty Ltd	139,018.45	
Valencia Grove Pty Ltd	13,681.36	
Western Land Corporation	28,684.61	
Wirrina Cove	132,214.22	679,849.84
GST Paid		211,233.00
Insurance		552.44
IT expenses		10,670.64
Legal Fees		89,905.04
Office Rental charge		5,460.95
PAYG Paid		8,120.00
Wages & associated reimbursements		8,160.62
Total Payments		1,013,976.93
Closing Cash at Bank		4,513,673.44

I note that the 'Distressed Loan Funding' relates to marketing costs, agents' fees, consultants' fees, legal fees and rates and land tax. The incurring of these costs are considered essential in terms of successfully realising the assets subject to the Fund's securities.



5. Estimated Return to Investors

I provide below an estimated return to Investors of between 11 and 17 cents in the dollar as at 31 January 2013 as follows:

	Low \$000's	High \$000's
Cash at Bank	4,513	4,513
Estimated selling prices	32,130	44,765
<i>Less:</i>		
Bank guarantees	(1,100)	(1,100)
Selling costs (3.5% of sale price)	(1,124)	(1,567)
Other loan	(3,300)	(3,300)
Land tax & rates	(8,272)	(8,272)
Other unsecured creditors	(1,300)	(1,200)
Receiver's fees	(532)	(532)
Estimated net amount available to investors as at 31 Jan 2013	21,015	33,307
Total investor units	193,916	193,916
Estimated return in the dollar	0.11	0.17

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

Subject to the sale of the properties currently on the market and where sale campaigns are to commence and particularly depending on the sale of the two largest properties, I anticipate commencing interim distributions to Investors shortly after 30 June 2013. The offer received for one of the two largest properties and where a contract has been issued is anticipated to settle on 28 June 2013. The other large property in South Australia has a number of different settlement dates, however the residential properties will likely settle by 30 June 2013.

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



6. Updated Unit Price

I have received numerous requests to provide an updated unit price. In this regard, I provide below an updated unit price as at 31 December 2012 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 2012.

	\$000's
Total Value of Fund Assets as at 31 December 2012 (net of land tax and rates)	38,099
Less value of NAB facility	(1,100)
	<hr/> 36,999
Less Creditors and Other Payables	(6,375)
Total Net Value of Fund Assets	<hr/> 30,624
Total Number of Units as at 31 December 2012	193,916
Unit Price	0.16

Please note that the unit price has been calculated based on unaudited management accounts as at 31 December 2012.

I attach a copy of a letter to Centrelink confirming the unit price as at 31 December 2012, which may be used by Investors to assist with the revision of their pensions.

I have previously written to the Minister for Families, Housing, Community Services and Indigenous Affairs seeking consideration to exempt units in the Fund from social security deeming provisions to assist retirees who are income and asset tested. However, the Minister has advised that an exemption from the deeming rules are only provided in very limited circumstances and only when specific characteristics are met, including the investment ceasing to operate within the terms of the Product Disclosure Statement (PDS). The Minister considers that the freezing of distributions and the risks associated with this product is allowed for in the PDS and the constitution of the Fund and therefore an exemption will not be granted in this instance.

7. Receiver's Remuneration and Expenses

I attach a summary of my current remuneration and outlays outstanding for the period 1 September 2012 to 31 January 2013. My remuneration incurred during this period totals \$504,571.00 plus outlays of \$27,868.52 plus GST.

I anticipate that my next application for approval of my remuneration will be in March 2013. I will continue to advise Investors of all future applications with respect to seeking approval of my remuneration.



8. Updating your contact details

If investors wish to update their postal address or bank details, a request should be submitted in writing to the following address.

Equititrust Income Fund (Receiver appointed)
C/- BDO
GPO Box 457
Brisbane QLD 4001

9. Queries

Monthly reports will continue to be uploaded to the websites www.equititrust.com.au and www.equitrustincomefund.com.au.

The remaining staff engaged by me to assist in the winding up of the Fund are located at the following address:

Postal Address: Equititrust Income Fund	Phone: 07 5510 4870
Wyndham Building	Fax: 07 5510 4907
Level 9, 1 Corporate Court	
BUNDALL QLD 4217	

Andrew Want of this office is, however, the key point of contact for all investor queries. Andrew can be contacted by the following;

Phone: 07 3237 5999
Email: andrew.want@equitrustincomefund.com.au

Should investors have any queries in relation to the winding up of the Fund, they should contact my office on (07) 3237 5999 or by email at info@bdo.com.au.

Yours faithfully,

David Whyte
Receiver

Employee	Position	Rate	Total Units	Totals		Administration		Assets		Creditors		Employees		Trade-on	
				Units	\$	Units	\$	Units	\$	Units	\$	Units	\$		
Whyte, David	Partner	560	393.00	220,528.00	66.10	37,016.00	276.30	154,728.00	11.40	6,384.00	0.00	0.00	40.00	22,400.00	
Somerville, John	Senior Manager	425	425.90	181,007.50	48.70	20,697.50	293.20	124,610.00	23.60	10,030.00	0.00	0.00	60.40	25,670.00	
Griffin, Maree	Associate	415	0.00	83.00	0.20	83.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Grushe, David	Manager	390	2.50	975.00	2.50	975.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Bulda, Andrew	Supervisor	350	0.60	175.00	0.50	175.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Demeyere, Chris	Senior Accountant I	310	1.30	403.00	0.00	0.00	1.30	403.00	0.00	0.00	0.00	0.00	0.00	0.00	
Coulston, Jayden	Senior Accountant II	270	27.50	7,425.00	25.20	6,804.00	1.30	351.00	0.00	0.00	0.00	0.00	0.00	0.00	
Want, Andrew	Senior Accountant II	270	338.50	91,395.00	325.50	87,885.00	2.80	756.00	4.10	1,107.00	0.00	0.00	0.00	0.00	
Hogbin, Tom	Senior Accountant II	240	0.30	72.00	0.30	72.00	0.00	0.00	0.00	0.00	0.00	0.00	6.10	1,647.00	
Michalk, Dean	Senior Accountant II	220	1.40	308.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Pembroke, Elle	Accountant I	220	1.70	374.00	1.70	374.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Jones, Annabel	Accountant I	190	7.70	1,463.00	7.70	1,463.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Alexander, Samuel	Consultant II	150	0.90	135.00	0.90	135.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Muller, Leisa	Practice Assistant	125	0.80	100.00	0.80	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Richardson, Ashley	Administrative Assistant	75	1.70	127.50	1.70	127.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
TOTAL			1,204.70	504,571.00	481.80	155,507.00	574.90	280,848.00	40.50	12,822.00	1.00	270.00	106.50	49,717.00	
			651	50,457.10											
TOTALING GST				555,028.10											
AVERAGE HOURLY RATE				418.84		373.59		468.52		440.22		270.00		466.83	

Item	
Airfares	4,394.46
Car Hire	200.86
Courier	484.07
Tax	7.00
General	2,567.87
Mileage	1,226.40
Parking	318.18
Photocopy	12,653.40
Postage	4,904.53
Search Fee	885.93
Taxi fares	745.82
Sub Total	27,868.52
GST	2,786.85
TOTAL	30,655.37



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AUSTRALIA

TO WHOM IT MAY CONCERN

28 February 2013

**EQUITITRUST INCOME FUND
ARSN 089 079 854
(RECEIVER APPOINTED) ("THE FUND")**


I refer to my court appointment on 21 November 2011 as interim Receiver and subsequent appointment on 23 November 2011 as 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.

I provide an update on the estimated unit price of the fund as at 31 December 2012, calculated as follows:

	\$000's
Total Value of Fund Assets as at 31 December 2012 (net of land tax and rates)	38,099
Less value of NAB facility	(1,100)
	36,999
Less Creditors and Other Payables	(6,375)
Total Net Value of Fund Assets	30,624
Total Number of Units as at 31 December 2012	193,916
Unit Price	0.16

Should you have any queries in respect of the above, please contact Andrew Want of my office on (07) 3237 5711.

Yours faithfully,


David Whyte
Receiver



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TO INVESTORS

18 April 2013

EQUITITRUST INCOME FUND ARSN 089 079 854 (RECEIVER APPOINTED) ("the Fund" or "EIF")

I refer to my previous reports and now provide my twelfth update to Investors since my appointment as Court appointed Receiver and person responsible for winding up the EIF on 21 November 2011. This report has been delayed by three weeks as I wanted to be in a position to confirm that one of the substantial assets in the Fund, being the Collingwood Park property, is now subject to contract with this being executed on 10 April 2013.

In addition, I am pleased to advise that the contract of sale to transfer the water and sewerage infrastructure and services at Wirrina Cove to Yankalilla Council was executed yesterday with settlement due on 31 May 2013. Completion of this sale will then trigger settlement of the 75 residential lots at Wirrina Cove as this was a condition of the sales. These items are further discussed at Section 1 below.

1. Property Realisations

Provided below is a summary of the status of the remaining properties awaiting settlement or still to be sold.

1.1 Properties Under Contract/Subject to Deed of Settlement

As this is a public document and to ensure I do not prejudice completion of the contracts, I will not at this time identify the individual contract values.

Loan Number	Loan (Borrower)	Security location	Settlement Date
105735	Valencia Grove	Griffith, NSW	22 April 2013
105549	Corymbia Estates	Carbrook QLD	14 May 2013
105657	Rosea Pty Ltd	Wongawallan, QLD	17 June 2013
105696	Morvale Land	Port Augusta, SA	30 April 2013
105653	Tweed Central	Murwillumbah, NSW	29 August 2013
105665	Corymbia Corporation	Collingwood Park, QLD	30 August 2013
105385	East Coast	Maclean, NSW	13 June 2013
105739	Sunset Cove Developments	Wirrina Cove, SA	Various

Please note that the settlement dates for the properties at Griffith, Carbrook and Port Augusta have been extended since my eleventh report to investors. The extensions were granted at the request of the purchaser with an extension fee and/or default interest applicable.



All properties noted above are subject to unconditional contracts with the exception of the following:

(i) Wirrina Cove

Ray White is continuing with the sale of the assets at Wirrina Cove. At the time of writing this report, a total of 134 offers have been accepted and/or contracts exchanged totalling approximately \$7.87 million with respect to residential land, rural land and marina berth under leases. A summary is provided below.

	Offers accepted/contracts exchanged (number)	Lots/marina berths remaining (number)
Marina berths	63	42
Residential land	68	7
Rural land	2	0
Caravan Park	1	0
Total	134	49

Discussions are ongoing with interested parties in acquiring the Resort, Golf Course, and Conference Centre and I anticipate that a contract will be finalised in the coming weeks. Following feedback from the sale campaign, an asking price of \$3 million has been set for this part of the Wirrina Cove assets.

The key issues that are/were required to be resolved to effect settlement of the above mentioned contracts include:

- Removal of caveats registered on titles and obtaining consent from a subsequent mortgagee. After protracted negotiations, I anticipate that the withdrawal of caveats will be completed in the next two weeks along with consent being granted by the mortgagee.
- Obtaining a new Section 23 Authorisation pursuant to the *Aboriginal Heritage Act 1988* for 32 allotments on the ocean front (Esplanade lots), 21 of which are located on an Aboriginal Site. This approval was received from the Minister's office on 15 April 2013.
- Transfer of the water and sewerage operations to Yankalilla District Council. Under the terms of the contract of sale, which was executed on 17 April 2013, the water and sewerage operations will be transferred to Council by 31 May 2013.

(ii) Collingwood Park

A contract was executed on 10 April 2013, which is conditional upon the purchaser obtaining approval from the Ipswich City Council and the Australian Government Department of Sustainability, Water, Population and Communities to clear the vegetation on the site. It is anticipated that the approvals will be obtained by 31 July 2013 with settlement scheduled 30 days thereafter. The contract does allow the purchaser to extend the contract for up to 28 days up to a maximum of three times upon



payment of a non-refundable fee of \$78,706.85 (for each extension) if the approvals have not been obtained.

1.2 Properties Remaining to be Sold

A summary of the status of the three remaining properties to be realised is provided below. Again, as this is a public document and to ensure I do not prejudice any ongoing negotiations regarding the sale of the properties, I will not at this time identify their expected realisable values.

(i) Toowoomba Foundry

Negotiations are ongoing with an interested party and I am hopeful that a contract will be finalised shortly. The site has various contamination and heritage issues, which has resulted in protracted contract negotiations.

(ii) Cornwallis and Richmond

The Receiver has commenced a sale campaign with tenders closing on 23 April 2013.

(iii) Gold Coast

The property consists of a residential house and land and is subject to possession proceedings, which are currently on foot. I have filed a claim and statement of claim and are currently awaiting for the defendant to file a defence. It is anticipated that mediation will take place by 7 June 2013.

1.3 Legal Proceedings

As advised in my eleventh report to Investors, there are several legal actions currently on foot. I am unable to provide specific details with respect to each matter and the expected outcome of same. However, I provide an overview below:

- As indicated above, possession proceedings are underway with respect to a secured property. Mediation is to take place by 7 June 2013 after the claim is lodged and responded to;
- Two claims have been filed against the same valuer for negligence and damages in excess of \$10 million. Expert witnesses are currently finalising reports to progress the claims. Any amount recoverable will be sought against a professional indemnity insurance policy;
- A deed of settlement has been executed with respect to a claim against a guarantor. Default judgment against the remaining guarantors has been obtained and letters of demand have been served. I anticipate that a sequestration order will be obtained bankrupting the guarantors;
- Monetary judgement has been obtained against a guarantor, however a cross claim has been filed by the borrower. The matter is likely to go to trial in mid-2013 once evidence has been considered;
- Several proceedings are ongoing against a bankrupt/related parties to realise an interest in the surplus proceeds from the sale of a property. This is likely to result in a substantial recovery for the Fund; and



- Other claims are still being considered against borrowers/guarantors/valuers to determine if commercial recoveries are achievable.

Given the nature of these matters, they are likely to take some time to resolve. However, it is expected that the actions will realise several million dollars for the benefit of Investors.

2. Creditor Claims

2.1 Secured Creditors

As advised in my eleventh report to Investors, secured creditors' claims have been discharged, with the exception of approximately \$1.1 million in respect of bank guarantees issued by the National Australia Bank.

The bank guarantees support bonds held by various Councils with respect to certain development sites. Discussions are ongoing with the councils to determine when the guarantees may be released.

2.2 Other Creditors

As advised in my eleventh report to Investors, there are a number of creditors that must be paid in priority to Investors, which include:

- Rates and land tax against certain properties to be realised;
- Trade creditors, which relate to liabilities necessarily incurred in the winding up of the Fund;
- Any other creditors outstanding at the date of my appointment; and
- Receiver's remuneration and outlays.

I am still investigating the amount advanced by the McIvor Superannuation Fund ('MSF') to the EIF, the current balance of which is approximately \$3.3 million. In this regard, I was of the understanding that the trustee of the MSF was MM Holdings Pty Ltd (Receivers and Managers Appointed) (In Liquidation) ('MMH') and, therefore, if it could be determined that the debt was due and payable then funds would be repaid to the Liquidators of MMH. However, I have since been advised that the trustee of the MSF was purported to have been changed to MSM Family Holdings Pty Ltd ('MSM') on 20 September 2011. This is surprising because of representations made by Mr Mark McIvor/MMH seeking repayment of the loan after my appointment on 21 November 2011. It should be noted that the directors of MSM are Mr Mark McIvor and Mrs Stacey McIvor. The sole shareholder of MSM is Mr Mark McIvor. My investigations are ongoing with respect to this matter and I am currently obtaining legal advice as to how to proceed with the demand for repayment of the loan.

2.3 Claims by the Liquidators of EL

As advised in my eleventh report to Investors, the liquidators of EL, Hall Chadwick, lodged an application for directions with the Court in relation to the extent to which they are entitled to be indemnified out of EIF's assets for remuneration and expenses incurred by them as Administrators totalling approximately \$805,000.

Hall Chadwick has still not filed the application for directions. It is therefore unclear if this will proceed.