SUPREME COURT OF QUEENSLAND

REGISTRY: Brisbane
NUMBER: 3383 of 2013

Applicants:	**RAYMOND EDWARD BRUCE AND VICKI PATRICIA BRUCE**
	AND
First Respondent:	**LM INVESTMENT MANAGEMENT LIMITED (ADMINISTRATORS APPOINTED) ACN 077 208 461 IN ITS CAPACITY AS RESPONSIBLE ENTITY OF THE LM FIRST MORTGAGE INCOME FUND**
	AND
Second Respondents:	**THE MEMBERS OF THE LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288**
Third Respondent:	**ROGER SHOTTON**
Intervener:	**AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION**

JOHN DAMIAN CORBETT, accountant and banking and finance consultant, care of 22 Market Street, Brisbane Queensland, states on oath:-

1. I am a managing director of FTI Consulting (Australia) Pty Ltd (**FTI**).

2. I am a qualified accountant, and have over 25 years' experience in arranging and structuring large-scale financing solutions (up to $3 billion) for project financed assets, resource projects, social and economic infrastructure transactions and complex business operations.

Signed

Solicitor/~~Barrister/Justice of the~~ Peace

AFFIDAVIT OF JOHN DAMIAN CORBETT

Filed on behalf of the First Respondent

Form 46 Rule 431

Russells
Level 21
300 Queen Street
BRISBANE 4000
Phone: 07 3004 8888
Fax: 07 3004 8899

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3. Chief among my recent professional experience is structuring, financial analysis, asset valuation financial modelling, business case development, negotiation and evaluation of:

(a) The Clem Jones Tunnel ($2.5 billion);

(b) Newcastle Coal Infrastructure Group Coal Terminal ($3 billion); and

(c) most recently, the development of an agricultural company (Hassad Australia) for the Qatar Investment Authority (over $500 million).

4. My curriculum vitae is now produced and shown to me and marked "JDC1".

Administration of LMIM

5. I have been engaged on the affairs of the LM First Mortgage Income Fund (**LM FMI Fund**), and other funds of which LM Investment Management Limited (**LMIM**) is the responsible entity, since Mr Park and Ms Muller were appointed as administrators of LM Investment Management Limited on 19 March, 2013. In recent times, I have concentrated my work on the LMFMI Fund.

Asset Portfolio of LM FMI Fund

6. The LM FMI Fund has a portfolio of assets comprising 27 loans to companies that own or are developing properties in the following sectors:

(a) Aged care;

(b) Commercial;

(c) Industrial;

(d) Residential; and

(e) Specialised residential.

Signed

Solicitor/~~Barrister/Justice of the Peace~~

7. Under Ms Muller's direction, I have led a team of professional staff of FTI, and also staff of a service company, LM Administration Pty Ltd (administrators appointed) (**LM Admin**) in undertaking a comprehensive strategy review of each of the properties, including a detailed analysis of the financial and developmental positions for each. That review has involved:

(a) seeking, obtaining, collating and reviewing information from the records of the LM FMI Fund, LMIM, and LM Admin regarding:

(i) the loan and mortgage arrangements (including the debt position), for each property;

(ii) LMIM's proposals for the development of each property, as at 19 March, 2013; and

(iii) the consequent likely value of each property.

(b) me or FTI staff alongside LM Admin staff inspecting the properties to understand the physical characteristics, including any proposed development of the property;

(c) identifying opportunities that are reasonably available to provide value to members of the LM FMI Fund in the short term;

(d) considering whether the development proposals for the properties were appropriate, given development timeframes, market conditions and the need both to optimise returns to members of the LM FMI Fund, and to do so as soon as reasonably practicable;

(e) reporting to Ms Muller and discussing with her and other senior staff of FTI as to the matters mentioned above; and

(f) implementing action as a result of decisions made.

Signed Solicitor/Barrister/Justice of the Peace

8. It emerged soon after FTI's appointment that, although LMIM and LM Admin were working from financial plans for the whole of the LM FMI Fund, there was, in my opinion, inadequate financial analysis of, and planning for, the development and performance of individual assets. I formed the view that, particularly because most of the 27 loans were in default on the appointment of the administrators, this individual, detailed analysis and planning was necessary. I discussed this with Ms Muller and she directed me to prepare a detailed analysis for each property underlying each of the 27 loans. This has been a very substantial task. It is not yet complete, especially in relation to the valuation of the underlying properties where additional specialist input is required into development and property zoning options.

9. For the purposes of the administration of LMIM, in respect of the LM FMI Fund, Ms Muller and other senior FTI staff have also undertaking the following work:

(a) analysing, considering and understanding financial arrangements and structures between LMIM, LM Administration Pty Ltd, the LM FMI Fund and the LM Managed Performance Fund;

(b) meeting regularly with representatives of Deutsche Bank to discuss proposed strategies to ensure Deutsche Bank was aware of the administrators' plans and did not take any action which may be prejudicial to members' interests;

(c) considering and calculating a plan of distributions of capital to members of the LM FMI Fund satisfactory to Deutsche Bank, and to see its loan repaid in full as soon as practicable.

10. In the course of this work, I and FTI staff have developed individual cash flow models for each of the assets, and these models also now feed into an over-

Signed

Solicitor/Barrister/~~Justice of the~~ Peace arching cash flow model for the entire LM FMI Fund. This model plans the entire work-out of the LM FMI Fund, development of those underlying properties that can be profitably developed and repayment in full of the Deutsche Bank facility with a minimum of interest and associated cost. The plan involves return of all capital to members within three years.

11. I do not exhibit these models, because they are commercially very sensitive, and because they very large documents.

12. On the appointment of the administrators, I also ascertained that neither LMIM nor LM Admin had obtained valuations for most of the underlying properties for at least the two years the preceding appointment. The review that I have undertaken, in consultation with Ms Muller, has involved the need to obtain substantial financial planning and other valuation advice, and to commission valuations of key properties in a planned way. That is, to manage cash flow and to plan and execute this review carefully, we have been identifying what we have termed "easy wins", and also identified the more substantial commercial exposures – and opportunities – for the assets LM FMI Fund. In that process, the administrators have obtained fresh valuations for over half the 27 underlying properties.

13. Again, I do not exhibit these valuations, for the same reasons that apply to the individual and LM MIF Fund cash flow models.

14. As a result of that work, I have, in consultation with Ms Muller and other senior FTI staff, developed detailed strategies for each property. Those strategies have being prepared having regard to:

(a) current and forecast market conditions;

Signed

Solicitor/~~Barrister/Justice of the~~ Peace

(b) the likely costs and risks associated with developing each property yet to be developed;

(c) the objective of undertaking an orderly asset sale program, in a commercially advantageous manner, to return members' investment capital in a timely way; and

(d) the need to realise and optimise capital returns for members of the LM FMI Fund.

Report by Responsible Entity

15. In the course of undertaking the strategic analysis work for LM FMI Fund's assets, I, and I believe the administrators, have been very mindful of the need to keep members of the fund informed of the outcome of the work. I have been responsible for the preparation of a report entitled "Report by Responsible Entity", dated 7 June, 2013 (the **RE Report**). Now produced and shown to me and marked **"JDC2"** is a true copy of that report. (Whereas in this affidavit I have referred to "properties", in that report I refer to "assets".)

16. I believe the information contained in the RE Report is true and correct, based upon the information that was available for each of the assets of the LM FMI Fund and the analysis that has been undertaken.

Signed

Solicitor/~~Barrister/Justice of the Peace~~

17. All the facts and circumstances deposed to are within my own knowledge save such as are deposed to from information only and my means of knowledge and sources of information appear on the face of this my Affidavit.

SWORN by **JOHN DAMIAN CORBETT** on 26 June, 2013 at Brisbane in the presence of:

Deponent	Solicitor/B~~arrister/Justice of the P~~eace

SUPREME COURT OF QUEENSLAND

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Third Respondent:	ROGER SHOTTON
Intervener:	AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION

Exhibit "**JDC1**" to the Affidavit of **JOHN DAMIAN CORBETT** sworn 26 June, 2013.

Deponent

Solicitor/Ba~~rrister/Justice of the Peace~~

CERTIFICATE OF EXHIBIT

Filed on behalf of the First Respondent

Form 47 Rule 435

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Level 21
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John Corbett

Managing Director — Corporate Finance/Restructuring

John.corbett@fticonsulting.com

FTI Consulting
22 Market Street
Brisbane, QLD 4000
Australia
Tel: +61 (0)7 3225 4900
Fax: +61 (0)7 3225 4999

Education
B.Bus Capricornia Institute of Advanced Education

M Bus (App Fin) University of Technology Sydney

Certifications
MAICD

Professional Associations
Chair – Infrastructure Association of Qld

Key Skills

- Evaluation and due diligence management of critical business case components of major projects across economic and social infrastructure
- Capital reviews and capital structuring of transactions and borrowing entities
- Strategic planning / business management
- Risk identification, assessment, allocation, mitigation and management
- Financial analysis, asset valuations and financial modelling
- Preparing and negotiating major project finance documentation

Professional Education and Industry Associations

2008-13	Infrastructure Association of Queensland	Board Member - Current Chairman
1992	University of Technology Sydney	Master of Business (Applied Finance)
1986	Capricornia Institute of Advanced Education	Bachelor of Business (Accountancy)

Relevant Experience

John has over 20 years experience in arranging and structuring large-scale financing solutions ($50 million to $3 billion) for large corporate and multinational clients, local government entities, state government enterprises, corporate agribusiness clients, project financed assets, social and economic infrastructure transactions and complex business operations.

John's experience extends across retail and wholesale trade, local government financing, cotton production and marketing, grain, cattle and sheep production, manufacturing, coal mining, waste services, airports, ports, toll roads, gas-fired power stations, renewable energy transactions (wind and hydro), coal seam methane gas production and regulated energy transmission.

Financing Expertise

- Undertaken financing, corporate and local government budgetary analysis and capital structuring, project structuring, asset valuation, sector risk analysis, financial risk analysis, risk mitigation strategies and financial modelling analysis for agricultural, local government, manufacturing, infrastructure, mining and retailing operations over the past 24 years.
- 8 years experience in reviewing, analysing, financing and critiquing business plans and physical operations across a variety of corporate ($30m to $500m) agricultural interests extending across irrigated cotton, dryland grain cropping, cattle breeding and finishing,

cattle feedlots, and sheep operations throughout New South Wales and Queensland.

- 12 years experience in reviewing and negotiating project, finance and construction documentation across greenfield developments in gas-fired power generation in NSW and Queensland, greenfield wind farm developments in South Australia, a community housing project in NSW, a port development in NSW and a toll road development in Queensland in order to mitigate transaction and construction risk and integrate these outcomes into the financing solutions for each project.
- Extensive experience in reviewing and analysing the technical aspects of transactions (alongside specialist independent consultants engaged to critically analyse individual transactions) to determine any technical or transactional weaknesses and address these issues in the financial structure to ensure the bankability of the transactions.

Broad Sector Experience

- Managed the due diligence, analysis, structuring, independent expert reviews, negotiation and documentation of Lead Arranger and Joint Lead Arranger financing roles across a wide variety of transactions including:
- The acquisition of a portfolio of private hospitals for in excess of $1 billion by one of the existing leading private hospital operators;
- Specific purpose funding for 2 local government bodies totalling in excess of $100m;
- 3 separate acquisitions over 18 months for a domestic analgesics and therapeutics manufacturer prior to the sale of the consolidated business for >$200m;
- Between 1992 and 1996, the acquisition and development of over $600m of irrigated farming properties across New South Wales and Queensland by 3 separate overseas investors and 6 separate domestic farming operations;
- Over 4 consecutive years, arranged and managed the cotton merchant financing (including cotton and foreign exchange hedging) for around 60% of the annual Australian cotton crop;
- The construction and operation of the 450MW Braemar Power gas fired peaking plant in Queensland;
- The construction and operation of the 280MW Lake Bonney Wind Farm in South Australia;
- Acquisition of Hobart Airport;
- Bond University's acquisition of their campus from EIE Corporation;
- The construction and operation of the 600MW Uranquinty gas fired peaking plant in New South Wales;
- The construction and operation of the Braemar 2 gas fired peaking / intermediate plant in Queensland;
- Fully analysed and structured bid for Curragh coal mine;
- Fully analysed and structured bid for Tweed River Sand Bypass PPP.

Current Industry Roles and Transactional Recognition

- Board member (2007 – current) and Chair of the Infrastructure Association of

Queensland (IAQ).

- Board Member and Chair of Audit & Risk Committee (2009 – current) for Hassad Australia Pty Ltd (a >$500m agricultural company owned by the Qatar Investment Authority) .
- Authored the IAQ's October 2008 PPP Guidelines submission to Infrastructure Australia.
- Co-winner, CFO Awards 2008 Project Finance Deal of the Year for the Newcastle Coal Infrastructure Group coal terminal at Newcastle.
- Co-winner, 2006 AsiaMoney Project Finance Deal of the Year for the Lake Bonney Wind Farm transaction.
- Runner-up for the 2005 ALB Law Awards Project Finance Deal of the Year for the Braemar Power Station transaction.

Agribusiness and Agriculture Experience

- Broad agriculture and agribusiness sector experience:
- Livestock (cattle, sheep)
- Intensive livestock (cattle feedlots, poultry)
- Processing (cattle, sheep and pig abattoirs, poultry processing, cotton ginning, dairy processing, food processing)
- Dryland cropping (coarse grains, cotton, sugar)
- Irrigated cropping (coarse grains, cotton, sugar)
- Commodity marketing (grains and cotton)
- 4 years running the ANZ corporate agriculture portfolio for NSW which covered sheep producers, cattle producers, grain cropping, cotton producers (dryland and irrigated), sheep abattoirs, cattle abattoirs, cotton ginning, cotton marketing, grain marketing, poultry processing & production and diary processing;
- 4 years running the ANZ Qld Corporate portfolio which included its exposures as lead financier to North Australian Pastoral Company, Kilcoy Pastoral, Golden Circle, Bundaberg Sugar, KR Darling Downs, Norco, Wallace Logan and other major beef producers);
- Development of the business plan for and current Director of Hassad Australia Pty Ltd – a >$500m agricultural company wholly owned by the Qatar Investment Authority operating sheep breeding and dryland cropping properties across all mainland states in Australia. In 2013, Hassad Australia is set to become the largest sheep producer and top 4 grain producer in Australia.

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Exhibit "JDC2" to the Affidavit of JOHN DAMIAN CORBETT sworn 26 June, 2013:

Deponent

Solicitor/~~Barrister/Justice of the~~ Peace

CERTIFICATE OF EXHIBIT

Filed on behalf of the First Respondent

Form 47 Rule 435

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FTI CONSULTING

7 June 2013
Our Ref: RCL_8974r17 (FMIF) Cover Ltr.docx

CIRCULAR TO INVESTORS IN THE LM FIRST MORTGAGE INCOME FUND AND FEEDER FUNDS

Dear Sir/Madam

RE: LM Investment Management Limited (Administrators Appointed) ACN 077 208 461 ("LMIM")

I refer to the appointment of John Park and me as joint and several Administrators of LMIM on 19 March 2013 pursuant to resolution of LMIM board of directors.

Please find *enclosed a Circular to the Investors in the LM First Mortgage Income Fund ("FMIF") and the feeder funds to the FMIF, namely the Currency Protected Australian Income Fund and the Institutional Currency Protected Australian Income Fund.

Contact Details

Investors are able to obtain further information as follows:

1. Regular updates will be provided on the LMIM voluntary administration website

(www.lminvestmentadministration.com); or

2. You can send an email to mail@lmaustralia.com.

Yours faithfully
FTI Consulting

Ginette Muller
Voluntary Administrator

*Encl.

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FTI CONSULTING

CRITICAL THINKING AT THE CRITICAL TIME™

LM Investment Management Ltd

(Administrators Appointed)

ACN 077 208 461

As Responsible Entity of LM First Mortgage Income Fund and Feeder Funds

Report by Responsible Entity

7 June 2013

FTI Consulting

GPO Box 3127

BRISBANE QLD 4000

Telephone: (07) 3225 4900

Facsimile: (07) 3225 4999

www.fticonsulting-asia.com

Purposes

This report has been prepared for the purpose of informing Investors of LM First Mortgage Income Fund (**Fund** or **FMIF**) and their Advisors only (collectively known as 'Recipients') of:

(a) the work that has been undertaken as at the date of this report, in the administration of LM Investment Management Limited (Administrators Appointed) (**LMIM**), in relation to the FMIF; and

(b) the financial position of the FMIF, particularly by reference to its assets.

This report may be used by Recipients in connection with their investment in the FMIF or for the purpose of advising of taking instructions from clients who are Investors in the FMIF.

However, it is not to be used for any other purpose nor disseminated to any other person.

No copy of all or any part of this report may be made without the prior written consent of Voluntary Administrators of LMIM.

By accepting a copy of this report, each Recipient agrees to use the report solely for the purposes, and in accordance with the conditions, set out above.

Please note, consistent with the obligations imposed by Principal 2 (Use and Disclosure) of the National Privacy Principles, confidential borrower information including borrower identities, loan values and realisable asset values have not been disclosed within this report.

Table of contents

1 Executive Summary

1.1 Administrators Appointed

LM Investment Management Limited (Administrators Appointed) ACN 077 208 461 ('LMIM'), the Responsible Entity of the LM First Mortgage Income Fund (the 'Fund' or 'FMIF') appointed John Park and Ginette Muller as Voluntary Administrators of the Responsible Entity on 19 March, 2013.

LMIM is in voluntary administration. The FMIF is not in administration. The FMIF is legally segregated and a separate entity from the Responsible Entity. The FMIF remains closed to new investors and quarantined to ensure its assets are protected.

1.2 The Portfolio Management Team

The Administrators recognised at the outset the importance of quickly assembling a balanced and experienced team who have a sole focus on the assets in the Funds (including FMIF. The Administrators have assembled a small dedicated and experienced team to oversee the management of the Fund assets and provide additional expertise into the development and execution of asset strategies. Existing LMIM staff, with the requisite skills and knowledge, has also been retained by the Administrators to continue to manage the Fund's assets. The two teams have been working very closely together for the last two months to review all assets and to identify avenues to maximise the returns to investors.

The FTI personnel of the assembled asset team have no other responsibilities on the administration besides a focus on working through all the LMIM Fund's assets (inclusive of FMIF), to progress these assets and maximise the returns to investors in the shortest time that is commercially feasible.

The team is headed up by John Corbett, a former banking executive with extensive commercial experience across property financing, property development, mortgage and legal issues, strategic planning, business operations, financial analysis and project management. John has extensive banking and commercial experience which includes being a former board member of a government owned property development entity with a greater than $500 million portfolio of residential development projects which required structuring, funding, development and sale of the completed projects in the open market to achieve a commercial rate of return.

John is supported by 3 personnel from FTI with a collective 40+ years experience in property, business planning & operations, financial modelling, financial analysis, project management, legal and security issues and dealing with real estate assets that are mortgagee in possession (noting that most of the FMIF assets are managed on a day-to-day basis by LMIM staff as mortgagee in possession with FTI oversight).

The Staff from LMIM consists of three highly experienced/qualified development managers, four experienced project managers and property development staff, LMIM's financial management/accounting team and LMIM in-house legal and paralegal staff.

The team overseeing the LMIM team forms the core resource group for managing the FMIF assets. This team is supported by outside expertise for specific technical, legal and commercial reviews in addition to the market assessments and valuations if and when required.

As was communicated in the Circular to Investors on 25 April, 2013, the overarching Fund strategy remains as follows: to "undertake an asset sales program with an orderly sale of all the remaining assets of the Fund in a commercial manner, with an objective to return investors' investment capital as quickly as commercially possible".

The Administrators continue to work with LMIM management to prioritise the following:

- progress the orderly sale of all the remaining assets of the Fund and provide a return of investors' investment capital as quickly as possible; and
- protecting asset value and ensuring the least possible disruption to investors.

LMIM and the Administrators (herein known as the 'Responsible Entity') continue to be fully committed to providing investors with a high level of transparency and meaningful information with regards to their investment in the Fund. The Responsible Entity fully appreciates the impact of the closure and decline in capital value of the Fund to individual investors over the past couple of years, together with the uncertainties created through the Voluntary Administration of LMIM.

We would like to assure investors that the Responsible Entity is working to maximise the capital return of the fund in a timely manner and trust that this comprehensive fund update will provide further comfort in this regard.

2 Fund Level Administration Update

2.1 Fund Overview

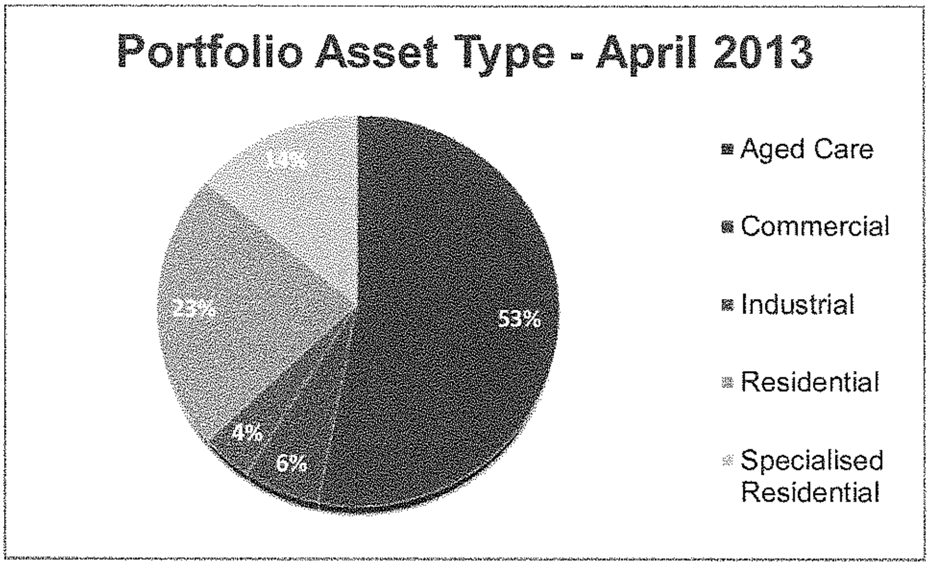
The FMIF comprises a portfolio of 27 commercial loans with a historical book value of $326,102,759 (per the last formal investor update dated 24 January, 2013). Two of these loans have had all security sold and mortgages released. However, there is residual debt on each one and these files now need to be closed - these have been disregarded when we discuss the various assets later in this report. In addition there are two borrowers each with two separate loans for the same asset. These have been treated as one facility in each case for the purposes of discussion later in this report. The majority of these mortgages have defaulted and where this is the case FMIF is acting as mortgagee in possession.

The Responsible Entity is currently conducting a review of the business and all of the LMIM funds and is now writing to provide a comprehensive update to investors as a matter of priority.

We will continue to assess options to further enhance values as we progress with the asset reviews and as additional information comes to hand. It is too early in the process to include into the portfolio assessment potential outcomes such as a successful rezoning of a land subdivision or the like and this may have future positive benefit to the valuation of the FMIF.
The following table presents an aggregate view of the assets types and potential strategies that the Responsible Entity would employ over a two year period for each asset type.

Asset Type	Potential Strategy Overview	%
Aged Care / Retirement	Mainly development properties - rezoning opportunities are being pursued as well as continued development & sell down on selected sites.	53%
Commercial	Mainly completed or partially completed projects - focus is to resolve issues, develop marketing options and progress to sale.	6%
Industrial	Mainly completed or partially completed projects - focus is to resolve issues, develop marketing options, progress to sale + progress and resolve litigation issues which may provide additional value upside.	4%
Residential	Mix of completed, partially completed and development sites - complete projects where appropriate; marketing and sale of completed assets and assessment of options for development sites.	23%
Specialised Residential	Completed projects with localised market and quality issues. Focus is to resolve issues and develop sale options.	14%

*Percentages based on FMIF loan balance as at 31/12/2012



As can be seen, the portfolio has a very heavy exposure to the aged care asset sector with all of the related projects in various stages of planning or development.

2.2 Comprehensive Asset Strategy Review

This review has been conducted to ensure that a thorough approach is being adopted across all assets to identify issues and impediments to maximising value in a timely manner. In addition, it also allows the Responsible Entity to confidently deliver to the twofold primary objectives of returning investors' investment capital as quickly as commercially feasible, and also to maximise the returns to investors.

As a part of the structured review process undertaken by the Administrators and LMIM asset management team, the following key tasks have been performed:

- Verified the current status of all assets to understand issues that may be impacting value or delaying the realisation process in order to directly and swiftly address all asset deterioration issues;
- Validated ownership and lending structures and identified stakeholders;
- Asset valuations were reviewed as part of each asset strategy. In many cases, the asset valuations were outdated (3 or 4 years old) and new valuations are being sought as part of our assessment process;
- Further independent expert input was sought for specific asset issues where required;
- Detailed asset and fund level cash flows were developed by determining future asset related rental income and operating expenses, development costs, sale revenues and selling costs. This information was essential to better understand the impacts of different strategies and allow fully informed decision making;
- Using the above analysis and recent market data, all existing assets were reviewed and analysed to develop refined individual asset strategies. A clear and considered focus was maintained on maximising value to investors and expediting capital return. The key elements are balancing risk and time with expected outcomes to ensure that the portfolio returns can be largely delivered in a progressive manner over the next two years. The following specific topics were addressed during the reviews:
    - Identify all options to maximise value;
    - Identify timely asset realisations whilst maintaining asset value (referred herein as "Quick Wins");
    - Develop individual strategic plans for each asset;
    - Identify and quantify risk issues;
    - Develop defined process steps for action and monitoring;
    - Based on the refined strategies, individual asset action plans have been established containing clear LMIM accountabilities and timelines;

* A total Fund level strategic plan and financial plan was developed which consolidated individual asset strategies into a total fund strategy, including a repayment schedule for the Deutsche Bank facility and a schedule for the estimated timing of investor returns; and

* The Responsible Entity's strategy supports the avoidance of a fire sale.

From this process, the Responsible Entity has clearly established the next steps in working through the FMIF asset portfolio, including:

- Constant ongoing refinement and monitoring of asset level strategic plans and financial assessments;
- Take action on the identified Quick Wins; and
- Take action to rezone identified assets in order to improve value.

The overall objectives that the Responsible Entity is working towards are:

- Maximising the returns to investors from asset divestments;
- Identifying and securing opportunities to minimise costs;
- Providing for the full repayment of the Deutsche Bank facility in June, 2014 (facility maturity); and
- Provide distributions of capital to investors as the fund is wound down.

2.3 Maximising Asset Values

Throughout the portfolio update section of this report we have outlined the following:

- The Responsible Entity's current and very early stage assessment of whether there is likely to be a reduction in asset values as we work through the portfolio wind-down;
- The methodologies being adopted to stabilise assets where issues are apparent; and
- The review of the existing asset strategies to identify and progress alternate asset strategies that have the potential to further improve value without undue risk.

All of these efforts of the dedicated Responsible Entity asset team are directed towards seeking to enhance investor value through either improvements in asset values, faster return of capital to investors or reductions in FMIF costs. As such, we will continue to provide comprehensive updates of the portfolio and will be endeavouring to enhance the total portfolio return beyond that currently indicated through our early stage assessments.

2.4 The Asset Valuation Process

Whilst the asset valuations were considered and updated as a part of the review outlined above, limitations encountered have meant that there are still qualifications to a definitive valuation of the Fund at this stage. Those limitations are as follows:

- Additional independent data is needed to be gathered and assessed;
- Complexity of the assets and related project issues require more time for analysis; and
- Some issues, challenges and potential incremental value opportunities need to be further clarified before individual asset strategies can be finalised and agreed.

However, the Responsible Entity would like to highlight the following:

- Development loans are being assessed on both an "as is" basis and "as if complete" basis; and
- A number of these development loans are in default and a current independent review of asset values is required.

From a whole of fund valuation perspective, the Fund is vulnerable to any movements in the value of underlying property and with a large proportion of these loans classified as "development loans" and "in default" it is likely that there will be further downside movement in the valuation of the Fund. We are presently receiving and analysing independent verification data such that we can provide clear valuation guidance in the next update. We appreciate that investors are looking for this information as soon as possible. We are working to provide valuation information as quickly as is feasible, whilst being cognisant of the need to present realistic and verifiable data.

The assets therefore require well considered and efficient strategies to arrest declines in asset values. This is a high priority area for the Administrators' asset team and one where they are well experienced to direct and assist LMIM management.

2.5 BIS Shrapnel Report

BIS Shrapnel have prepared a report that comprises an evaluation of key variables used in feasibility studies undertaken by LMIM when developing an asset strategy for the FMIF. The purpose of the report was to determine if key variables adopted are, in BIS Shrapnel's opinion, fair and reasonable and to provide commentary around these assumptions and inputs. The Responsible Entity has reviewed this report and taken into consideration the outcomes of the report in light of the potential asset strategies being adopted (outlined above) by the Responsible Entity. In some instances the asset strategies that will be employed by the Responsible Entity differ from those recommended by BIS Shrapnel given that BIS Shrapnel were working to a much longer asset work out timeframe compared to the Responsible Entity who is working on winding down the fund in a progressive manner over the next two years.

2.6 Minimising FMIF Costs

The Administrators' have implemented a comprehensive operational system since the date of their appointment that addresses pre-existing gaps in financial controls, including cash flow modelling at the individual asset / loan book level. With the introduction of controller level budgets and cash flow modelling, the Responsible Entity is now able to better control and identify avenues to reduce asset holding costs. This, together with comprehensive control systems to monitor expenses, will substantially assist the Responsible Entity in our objective to maintain tight cost controls and cost reductions across the FMIF portfolio.

2.7 Hardship Payments

Historically, hardship payments to investors approved by ASIC have been made by the Fund where redemption requests have been frozen and where capital distributions were on hold pending necessary asset realisations. The fund is being wound down and asset realisation strategies implemented to allow future periodic capital distributions. Capital distributions commenced in March, 2013. It is intended that the periodic capital distributions to investors continue in a planned and regular manner. This process in turn, materially decreases the need for separate hardship payments to continue. Should a circumstance arise and be approved by ASIC that would dictate the need for a separate hardship payment, the Fund will consider the request, however it is intended that regular periodic capital distributions are the most appropriate path forward for investors as it provides for equal (per unit basis) distribution at an equal time.

2.8 Distribution of Capital to Investors

We are cognisant of the desire for investors to receive regular capital distributions as the FMIF is wound down. To this end, we are expecting that after the June capital distribution is processed there will be a further distribution in early August and thereafter, capital is expected to be distributed to investors on a quarterly basis, subject to cash flows, as the wind down progresses.

2.9 June, 2013 Capital Distributions to Investors

The FMIF is distributing a total of $4,270,690.45 to ALL underlying investors, including each of the LM Currency Protected Australian Income Fund (CPAIF), LM Institutional Currency Protected Australian Income Fund (ICPAIF) and former LM Wholesale First Mortgage Income Fund (WFMIF). Payments will be received by investors in the next few weeks. You will be notified of the cents per unit represented by the payment when the payment is made. Following are the total payments:

- CPAIF - $1,056,318.30
- ICPAIF - $81,832.71
- WFMIF - $844,695.05
- Other FMIF investors - $2,287,844.39

Members should be aware that the consent of Deutsche Bank was necessary before this distribution was allowed. We were pleased to advise that we have gained that consent.

We remind WFMIF investors that Trilogy will be responsible for distributing the capital payment it receives to the underlying investors in that fund. We note that LMIM had previously paid a capital distribution of approximately $1.7million from FMIF to the WFMIF at the beginning of March, 2013.

A distribution statement will be forwarded to you when the payment is made and this will set out the cents per unit returned to you.

2.10 Repayment of Deutsche Bank Facility

The Fund has a fully drawn line of credit with Deutsche Bank of $26 million. This facility remains in place and continues to operate in the same manner as before the appointment of Voluntary Administrators to LMIM. Deutsche Bank has not required any amendment of the terms of the approved facility parameters.

The Responsible Entity believes that the Deutsche Bank facility is an expensive facility, therefore, we investigated a course of action which would prioritise repayment of this facility over any capital returns to investors. However, after careful review of the terms of the facility, it became apparent that early repayment would incur additional costs resulting in a conclusion that early repayment is not a financially viable or financially responsible option for FMIF. Accordingly the facility repayment is proposed to occur in full as originally planned at the maturity date of 30 June, 2014.

With the level of financial modelling and forecasting that the Responsible Entity has developed to manage and monitor FMIF, we will be ensuring that, in making future capital distributions to FMIF investors, sufficient funds will be reserved to allow full repayment of the Deutsche Bank facility at loan maturity.

We are pleased to report that since the Administrators' appointment the interest costs and principal repayments continue to be paid as scheduled from the cash flows of the Fund. We are working towards the previously agreed reduction in the facility to a required maximum of $25 million by the end of June, 2013.

The Voluntary Administrators maintain a close dialogue with Deutsche Bank to ensure they remain fully informed and comfortable with the ongoing operations of this facility. The Deutsche Bank facility is in place to 30 June, 2014, with an option to further extend to 30 June, 2015, if required.

2.11 Foreign Currency and Hedging

The foreign currency hedges for investors into the ICPAIF and CPAIF were disrupted following the abrupt cancellation of facilities by existing providers. The Responsible Entity has worked to establish new facility arrangements with alternate providers which are now finalised and we are now progressively reinstating the hedging to protect the foreign exchange exposures of the ICPAIF and CPAIF Investors as the Fund's assets are progressively divested and capital returned (which is expected to take around 2 years).

This abrupt cancellation by the previous foreign exchange providers has resulted in some losses to the CPAIF and ICPAIF funds which we are still quantifying - despite repeated requests of these former providers over the past 8 weeks, we only received the detailed transaction reporting on Thursday 23 May, 2013 for the transactions they unilaterally undertook during the week of the 22 to 25 March, 2013.

We should highlight that the quantum of losses from the cancellation and reinstatement of the foreign exchange hedges are not substantial - we estimate that the losses will be between 0% - 2% (depending upon the currency concerned).

2.12 Update Your Payment Details

If you have recently changed your bank details it is important that you please complete the form available on the FAQ page of the www.lminvestmentadministration.com website and email the completed form to investmentservices@LMaustralia.com as soon as practicable.

2.13 Income Catch-up for Relevant Investors

The Responsible Entity is aware of this issue and proposes to make a further payment to those FMIF investors with income distributions outstanding. The Responsible Entity will provide further communication around the timing of such payment as soon as possible.

3 Comprehensive Portfolio Status Update

3.1 FMIF Portfolio – Achievements to Date

In the nine weeks since the appointment of the Administrators', there has been substantial work undertaken across the asset portfolio of FMIF significantly advancing actions and strategies. The achievements to date include:

3.1.1 Addressing Asset Deterioration

There were a large number of assets that had started to display deterioration - either in a physical sense or in a strategic / commercial sense. Examples of these and actions already undertaken include:

A partially completed industrial development - this asset saw construction commence in 2009 which then halted in 2010 following cost, certification and contractual issues. Investigations by independent experts were undertaken through 2011 and into 2012 that highlighted FMIF had a valid legal claim. A review by senior counsel concluded FMIF had a strong case that could be brought against parties for professional negligence which is expected to return in excess of $2m to FMIF. The claim was to have been progressed at the time of the Administrators' appointment and with only 2 months before the time limit for action expires, the Responsible Entity is now urgently progressing this.

A completed residential project with major defects - whilst the defects were recognised, little definitive action had been undertaken in determining how FMIF could either resolve the defects or identify an exit strategy. This asset has continued to physically deteriorate over the past couple of years. The asset is a cash-drain on FMIF as revenue does not cover the basic asset holding costs (rates, taxes, etc). The Responsible Entity is now quickly working to identify the most appropriate exit strategy for the asset and has received formal detailed submissions from external parties on this in the past week.

A new residential project - lack of funds saw the project marketing wind down last year following a solid initial pre-sale effort. This project is well located with the overall residential market data in that area demonstrating buoyancy over the past 18 months. There exists a risk of existing pre-sales falling away in the near term if the project is not progressed which would significantly impact the asset value. The Responsible Entity has initiated the development of a marketing plan and budget to strengthen the financial options for this project in the short term.

3.1.2 Maximising Value

Beyond addressing issues around asset deterioration, we have also been actively reviewing the portfolio to identify actions that would maximise value - both recognising market conditions where future value appreciation is limited (due to long term structural or oversupply issues) and identifying assets where positive actions have the potential to provide a more marketable product. Examples include:

A completed residential project - Following an unsuccessful marketing campaign, this project was being held by FMIF until an improvement in market conditions on the basis of it generating a return for the fund (assumed approx 3.8% net return). In developing the asset level cash flows and probing on costs associated with this asset, the Responsible Entity has determined that the asset in fact is generating a return of less than 0.4% of its impaired loan balance. This asset has a current value of around $9m to $12m with limited near term upside (other than with optimistic market assumptions) to justify a longer term retention. The Administrators have since utilised their extensive network to identify interested and financially sound parties for its divestment and the Responsible Entity is presently exploring these opportunities.

Land rich projects being progressed with an aged care (loan/lease model) sales strategy - there are a number of aged care projects across the FMIF portfolio and these comprise a substantial portion of the portfolio's value. For some assets, these aged care strategies are likely to be the most appropriate strategies to maximise value (given their location, project size or current level of development), but there are other projects which are large sites and the risks and timeframes to develop out these projects as presently conceived are very substantial. A number of these have the potential to be restructured and progressed more efficiently with substantially reduced risk as predominantly traditional residential land projects (also consistent with their zoning). These are presently receiving high priority for assessment and analysis with independent expert reports already commissioned and now coming to hand. In at least one instance, there is also potential to progress higher density zoning approvals as part of the residential focus which affords significant opportunity to enhance values from where they presently stand.

3.1.3 Quick Wins

There are a number of instances where the Responsible Entity has identified opportunities for timely asset realisations whilst also maintaining asset value (referred herein as "Quick Wins").

The benefit of identifying Quick Wins is to increase the speed of returning capital to investors through the realisation of stagnant security where it is not of benefit to investors to delay their realisation. Some of these have already been covered above, but other relevant examples include:

An integrated development project - 7 x 3 bedroom dwellings were completed in 2012. These dwellings have not been marketed to date nor are there any impediments to being marketed. The dwellings are located in a well sought after capital city location and had delayed marketing and sales due to indecision on strategy (being considered as possible aged living assets on a loan/lease model). We have identified that they can easily be sold as freehold residential for which there is sound market demand. We are presently completing a market appraisal on these properties and expect to commence marketing these in the very near term. Estimated value of these is in the order of $2.3m to $2.6m.

A fully completed strata-titled commercial project in an east coast capital city - This project was completed in 2007. To date only 25% of the commercial units have been sold and the project has a stalled sales strategy. The market for this product is sound and the project required urgent strategic attention in order to revise and recommence the marketing campaign. This is presently receiving attention in order to unlock proceeds which could amount to between $12m to $15m.

3.2 Asset Portfolio Overview as of 24 May, 2013

As highlighted earlier and discussed in more detail through this report, the Administrators' have been working with the LMIM asset management team to identify strategies and options to enhance portfolio value beyond an "as is" value. The key elements are balancing risk and time with expected outcomes to ensure that the portfolio returns can be largely delivered in a progressive manner over the next two years.

Based on the existing asset level strategies, about one third of the assets would require between 4 and 6 years to be fully realised. This is obviously too long a delivery timeframe as it introduces significant risks and additional costs in delivering these outcomes. Accordingly, the Responsible Entity is driving to ensure that the updated asset strategies developed are still capable of delivering sound value upside compared to a current "as is" value, but within acceptable timeframes.

The last reported valuation for FMIF was 59 cents per unit (June, 2012 audited accounts - disclosed in November, 2012 investor update). Given the gap in up to date asset valuations it is not possible to provide a considered assessment of value at this time. However based on our review to date, it is highly likely there will be downward revisions to previous FMIF loan book values when this is finalised in coming months.

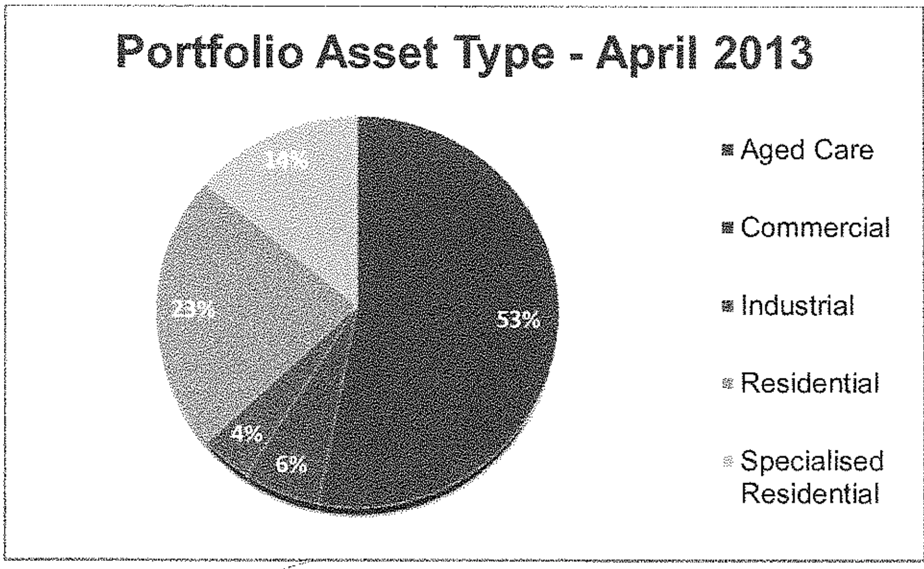
Even as a heavily worked value accretive strategy, the Responsible Entity acknowledges that this is a poor outcome for investors and is reflective of the assets in the portfolio where most of these are failed borrowers / failed developments and are held by FMIF as mortgagee in possession. For a number of assets, there is limited substantial upside to their "as is" values and for those that the Responsible Entity has identified with value accretive options, these are limited by underlying asset issues or market issues.

We will continue to assess options to further enhance values as we progress with the asset reviews and as additional information comes to hand. It is too early in the process to include into the portfolio assessment potential outcomes such as a successful rezoning of a land subdivision or the like and this may have future positive benefit to the valuation of the FMIF.

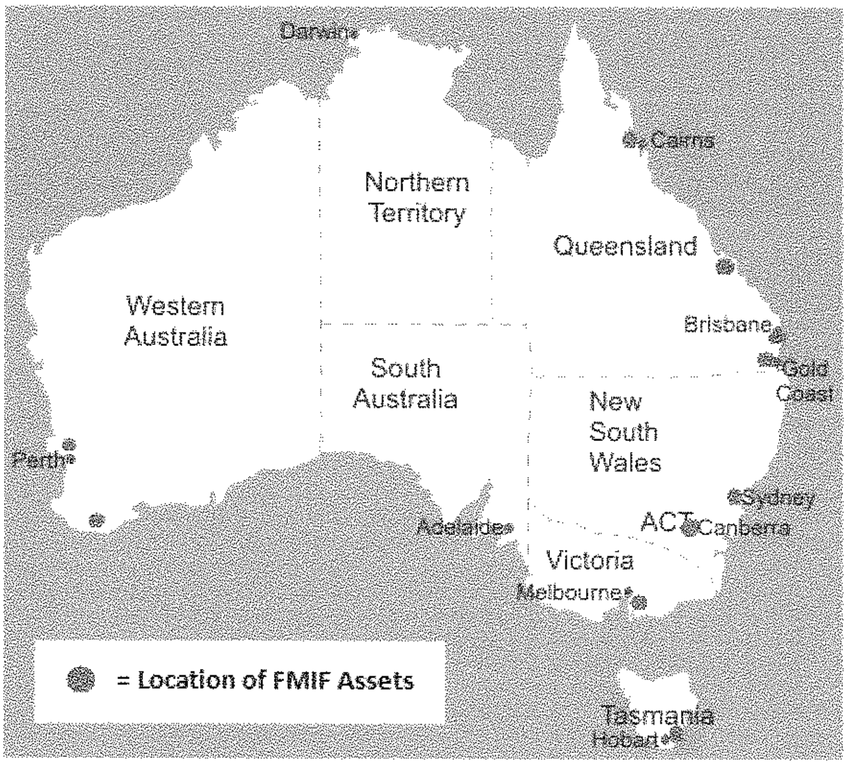
The following table presents an aggregate view of the assets types and potential strategies that the Responsible Entity would employ over a two year period for each asset type.

Asset Type	Potential Strategy Overview	%
Aged Care	Mainly development properties - rezoning opportunities are being pursued as well as continued development & sell down on selected sites.	53%
Commercial	Mainly completed or partially completed projects - focus is to resolve issues, develop marketing options and progress to sale.	6%
Industrial	Mainly completed or partially completed projects - focus is to resolve issues, develop marketing options, progress to sale + progress and resolve litigation issues which may provide additional value upside.	4%
Residential	Mix of completed, partially completed and development sites - complete projects where appropriate; marketing and sale of completed assets and assessment of options for development sites.	23%
Specialised Residential	Completed projects with localised market and quality issues. Focus is to resolve issues and develop sale options.	14%

*Percentages based on FMIF loan balance as at 31/12/2012



As can be seen, the portfolio has a very heavy exposure to the aged care asset sector with all of the related projects in various stages of planning or development.
The map below demonstrates that FMIF comprises a diverse portfolio of assets across Australia.



3.3 Portfolio by Property Segment

In reviewing the existing assets, a key focal point of analysis has been a review of the underlying values / valuations of the assets. Given present market conditions, a number of the valuations are out-dated and new valuations are being sought as part of our assessment process. However, following further analysis and review overseen by the Administrators, it was identified that that there are a number of assets where the provisioned loan values (i.e. the current FMIF book values) are still higher than a reasonable assessment of current valuation would suggest and further asset write-downs can be expected.

3.3.1 Aged Care / Retirement

FMIF is mortgagee in possession for most of these assets as the original developers have defaulted and FMIF has exercised its rights as first mortgagee. As a result, FMIF is now acting as the developer and is seeking to maximise the returns through completion of the projects. The table overleaf presents a brief overview of the individual assets:

Asset Type	Mortgagee In Possession	Potential Strategy - Overview
Aged Care / Retirement	Yes	Sell down the majority of the balance of subdivision as freehold residential – market and sell the aged care component to an existing operator.
Aged Care / Retirement	Yes	Revise / progress the marketing program for the vacant aged care residences and sell the ongoing business to an existing operator.
Aged Care / Retirement	Yes	Complete planned build program for the next stage of the facility, sell down dwellings and then sell the ongoing business to an existing operator.
Aged Care / Retirement	Yes	Restructure balance of project into residential development sites and sell down.
Aged Care / Retirement	Yes	Sell down completed aged care dwellings and aged care business.
Aged Care / Retirement	Yes	Rezone and subdivide balance of land as residential. Complete a portion of planned aged care build program and sell down residential lots, aged care dwellings & aged care business.
Aged Care / Retirement	No	Renegotiate loan terms with borrower to regularise and have the facility refinanced within an agreed timeframe.

The general business model for the Aged Care / Retirement assets involves developing the properties into dwellings (units or houses) together with the development of common facilities (community facility, pools, etc) and the provision of supported care in some business models. The sale of a dwelling involves a loan / lease structure – whereby a purchaser acquires a dwelling through provision of a loan (at an amount that matches the valuation of the dwelling) that entitles them to occupancy as long as they require. The tenant is also up for regular fees (much like a body corporate payment) which cover the contribution to the maintenance of the common facilities and partially pays for the care/ support they receive. When the tenant leaves the dwelling, the manager will then find a new party to acquire the dwelling at the then market value and a portion of the proceeds are returned to the original tenant and a portion retained by the manager.

The revenues from this model are derived from developing and "selling" the dwellings to aged tenants and once all dwellings are sold, from the proportionate income retained by the turnover of dwellings as tenants leave and new tenants are found. However, to operate this model requires heavy ongoing expenses, such that the business model does not mature and become operationally cash flow positive until most of the developed units are sold when there is a regular turnover of dwellings income to support the level of care and operational expenditure. The nature of these assets and the business model they operate under means that these assets take a considerable period of time to be fully developed and sold to reach a steady state of business operations – at which point the business is also sold to generate the final component of return on the development.

The Responsible Entity's review of these assets has indicated the potential for a negative variation to the current FMIF loan book value. This is due primarily to:

- Current strategies are generally to build out and sell these assets over extended (4 to 6 year) timeframes; and

- Current significant monthly operating losses in these under-developed assets.

Together, these complex business model elements serve to make the assets relatively unattractive in the current market in their present form. Market testing on a couple of selected projects undertaken in 2012 indicated that longer term work-out strategies were required to maximise investor capital rather than to initiate an immediate asset realisation process.

The Responsible Entity has been undertaking substantial work to identify and develop options that will enhance the value of these assets for FMIF investors within a more appropriate (2 year) timeframe. The over-riding criterion the Responsible Entity has set is to identify strategies that both reduce the risk and reduce the timelines in progressing with selected value enhancement strategies.

3.3.2 Commercial

For the 3 commercial assets listed below, FMIF is mortgagee in possession or in the process of moving to mortgagee in possession. All three assets are in the process of selling down. Two assets are expected to be fully sold by end 2013. The third asset has substantial remaining stock to sell but has attracted little market interest for over a year at current prices and marketing approach. This is presently receiving attention by the Responsible Entity as described later in this report.

Asset Type	Mortgagee In Possession	Potential Strategy - Overview
Commercial	Pending	Sell down remaining 3 commercial units.
Commercial	Pending	Restructure marketing approach and prices in line with market. Sell down progressively.
Commercial	Yes	Sell down the one remaining commercial unit.

Given the gap in up to date valuations it is not possible to provide a considered assessment of value at this time. However, it is likely there will be downward revisions to previous FMIF loan book values with limited avenues to enhance value for two of these assets. The third asset requires significant reworking of strategy and this is presently receiving attention.

3.3.3 Industrial

For the industrial assets listed below, FMIF is mortgagee in possession or in the process of moving to mortgagee in possession across all four assets. Of the two developed assets, one is expected to be fully sold by the third quarter of 2013 and the other has been recently unsuccessfully marketed as there are contractual structures in place that make the asset unattractive to third parties - this is receiving further attention by the Responsible Entity to identify possible resolutions.

Asset Type	Mortgagee In Possession	Potential Strategy – Overview
Industrial	Yes	Resolve present legal issues and realise on supporting security.
Industrial	Yes	Sell down remaining industrial unit.
Industrial	Yes	Develop strategy to sell partially completed project and progress associated legal claims where warranted.
Industrial	Yes	Resolve contractual issues and market asset.

One asset has been fully sold leaving a shortfall on the loan but there may be some avenues for FMIF to recover further money through pursuit of supporting securities (guarantees). The loan is subject to legal disputes between FMIF and subsequent mortgagees and the Responsible Entity is presently investigating these matters to develop a strategy to finalise the legal issues and seek recovery of further amounts via the supporting securities.

The final asset is a stalled development project that requires a strategy to both resolve commercial / litigation issues that could be beneficial for FMIF investors and identify the best path forward to maximise the asset value for FMIF investors. This is receiving high priority by the Responsible Entity given time limitations around potential litigation.

Given the gap in up to date valuations it is not possible to provide a considered assessment of value at this time. However, it is likely there will be downward revisions to previous FMIF loan book values. For at least two of these assets there are avenues that could be undertaken over the next six months that could substantially enhance value. The remaining asset is expected to be sold by third quarter of 2013.

3.3.4 Residential

FMIF is mortgagee in possession or moving to this position for six of the 7 assets listed below.

Asset Type	Mortgagee In Possession	Potential Strategy – Overview
Residential	Pending	Revise marketing to complete to a level of pre-sales and then on-sell project to recover most (if not all) of outstanding loan.
Residential	Yes	Sell down of remaining residential units.
Residential	Yes	Pursue guarantors.
Residential	Pending	Market in an appropriate timeline the potential residential land project to recoup to 80%+ of outstanding loan.
Residential	Yes	Continued sale of completed residential units over an appropriate timeline (not a fire sale).
Residential	Yes	Completion of project and sale of completed residential dwellings.
Residential	Yes	Sell down of remaining subdivided lots in a progressive manner and development of strategies for remaining englobo land.

The assets not in possession are not productive loans and we are progressing to assume the role as Mortgagee in Possession

Of the remaining six assets, there are three relatively significant assets in this component of the portfolio as follows;

1. A completed residential project that is in the process of selling down;
2. A stalled residential development project; and
3. A residential land development project.

The remaining three assets are small and all in the process of selling down, albeit with losses expected against their outstanding loan balances.

The stalled residential project is a quite significant project requiring remedial work to be undertaken and a marketing strategy to be re-scoped and progressed before we could contemplate either a sale or some other form of exit strategy. A sale "as is" is not considered appropriate and value should be significantly enhanced with the appropriate level of care and attention to strategy and execution. This is receiving high priority by the Responsible Entity with the view to be able to undertake a favourable exit by fourth quarter of 2013.

The final asset is a residential land development project in an area with weak demand. It is a difficult site with areas that will be expensive to sub-divide. This impedes the economics of elements of the project and the Responsible Entity has been undertaking preliminary assessments of alternate strategies. This is not an urgent priority as there is an existing stage that has been completed and is in the process of being marketed. Marketing will need to progress further before any future development stages could otherwise be contemplated. Rather, the initial focus for this project is an effective marketing / sales program to shift the existing lots in a timely manner, with strategies for the remaining balance of land to be worked up in parallel. Given the gap in up to date valuations it is not possible to provide a considered assessment of value at this time. However, there is likely to be downward revision on the loan book value of this asset.

Overall, we expect a significant percentage (>60%) of these assets to be realised by first quarter of 2014, with the balance subject to the current strategic assessments being undertaken.

3.3.5 Specialised Residential

FMIF is mortgagee in possession for both assets and they have been held by the fund for some time. Both assets are in poorly performing local real estate markets which limits options for divestment. Each asset also has significant holding costs which are not covered by income streams. One asset also has construction quality issues which are impeding potential divestment.

Asset Type	Mortgagee In Possession	Potential Strategy - Overview
Resort Units	Yes	Resolve commercial, body corporate and legal issues. Sale in one line with a targeted marketing campaign - very shallow market for individual sales.
Resort Units	Yes	Sale in one line with a targeted marketing campaign - very shallow market for individual sales.

The Responsible Entity has been reviewing these as priority items given the potential for further building deterioration in one case and the need to identify divestment options in both cases. The strategies are still formative; however there is reason to believe that both assets could be divested by first quarter of 2014.

Given the gap in up to date valuations it is not possible to provide a considered assessment of value at this time. There is likely to be downward revisions on the loan book value of both of these assets. However, the Responsible Entity has identified some avenues where we may be able to improve this outlook.

3.4 Portfolio Guidance

In our analysis of the assets, we have been reviewing the underlying values / valuations of these assets. Given present market conditions, a number of the valuations are out-dated and new valuations are being sought as part of our assessment process. However, following further analysis and review overseen by the Administrators, it was identified that that there are a number of assets where the provisioned loan values (i.e. the current FMIF book values) are still higher than a reasonable assessment of current valuation would suggest and further asset write-downs can be expected. This is the case with the aged care component of the portfolio due to a number of factors including:

- Using an on-completion valuation to determine the provisioned loan value whereas in winding down the fund an "as is" approach may be adopted;
- Inclusion in the previous valuation assessment of a business value to the operating business when the asset reaches completion – this value is uncertain and would not be achieved for between 4 and 7 years (depending on the asset and its present state of development) as so would be discounted in an "as is" value; and
- In some cases, the assets are incurring substantial monthly operating losses which would be reflected in an 'as is' value. These operating losses cannot be significantly reduced due to legislative requirements around their operations as aged care facilities.

The other asset category where there may be a significant diminution in value when considered on an "as is" basis is the specialised residential portfolio. This is due to the nature of the assets (resort style assets), the state of the local real estate markets and also significant site specific issues around location, building defects and resort performance.
Other assets where there will be notable value diminution include:

- A land subdivision where localised market conditions have seen a reduction and slow down in new land sales. This property also has difficult ground conditions making some of the land uneconomic to sub-divide profitably at current contractor rates;
- A residential development which has been fully sold and where the balance will need to be written off as the guarantors now reside in an overseas jurisdiction there is limited prospect of any further recovery; and
- A completed capital city commercial development where there has been limited demand for the completed asset with only 25% sold in 6 years. There are issues with end valuation / prices sought in the market and hence a very low level of completed sales to date together with ongoing retention costs (maintenance, rates, land tax, etc) necessitating a more conservative approach to estimated value.

3.5 Process Enhancements

Since the appointment of the Voluntary Administrators, the specialist team has undertaken an extensive review of the FMIF portfolio and also the underlying processes and procedures in managing that portfolio. This review has introduced a range of control processes that were either non-existent or under-developed. In addition to this, the team has strengthened a number of other processes in the assessment of credit risks and management of the assets.

The Administrators' analysis of FMIF's Operational System since the date of our appointment demonstrated a few areas that required improvements and implementation of controls in relation to cash flow for Fund and individual loan levels.

The Administrators' identified a significant gap in financial control which included cash flow modelling at the asset / loan book level. The Administrators' have since instigated the introduction of controller level budgets and cash flow modelling to build a fund level cash flow model. This model has also been an invaluable contribution in determining future asset strategies through the analysis of holding costs versus realization model to ensure that investor returns are maximized.

The processes now in place include:

3.5.1 Strategic Review of Assets

Strategic reviews have been completed for all assets and initial strategic plans documented. There are a number of assets where revisions to existing strategies are necessary as the existing strategies were either not appropriate in current market conditions, not financeable or otherwise carried significant risks in execution. These strategic review actions will be ongoing for each asset to ensure that there exists a process to capture and fully assess the impacts of new information as it is received. For each asset, the Responsible Entity has created a process to collate into one document all they key transaction description, loan / account information, loan status, risk assessment and current status. This is to provide one record point for all key loan / transaction information in the same manner as would be seen in a bank lending file. In the process of completing these documents, they are also being utilised as the key document that would then capture the key information from the strategic review of each asset. This strategic review utilises all key LM personnel (account / development manager, a senior LM executive, LM legal) and at least two FTI personnel and involves:

1. A comprehensive review of the key borrowing information (borrower, legal structure, legal issues, loan amount, security structure, security valuation, method of valuation, transaction status, commercial issues and current strategy);

2. Key issues and risks are discussed as well as a review of the current strategy, its progress and impediments;

3. Consideration is then given to the suitability of the current strategy, potential alternate strategies, key information gaps, timelines and key dates (such as expiry of DA, expiry of pre-sale contracts, etc) and action plans developed with assigned tasks and timelines for delivery;

4. From the analysis and decisions taken above, a comprehensive cash flow is developed for each asset to provide the underlying basis for a discounted / risk adjusted cash flow analysis of the current strategy and any alternate strategies that may be considered.

- **Credit Committee Meetings** - The Administrators' have re-formed the composition and processes of credit committee meetings.

- **Key Risks / Issues** - The Administrators' introduced a process of clear identification and documentation of all significant risk issues for each asset and what mitigating actions (if any) can be employed to manage these risks. This process includes assignment of tasks, action plans and timelines to dealing with these issues.

  - **Cash flow Forecasting, Expense Monitoring and Controls** - Whilst LM prepared fund level cash flow forecasting the Administrators' have introduced full cash flow forecasting, detailed expense monitoring and controls in the approvals of expenses across each asset and across the FMIF portfolio. This ensures we are capturing all costs in FMIF, identifying opportunities to manage and reduce asset level costs and have full and continuous knowledge of the total carrying / holding costs of individual assets. This is supported by and managed through a detailed financial model developed by the Administrators'.

  - **Development of a "whole of fund" cash flow model for the FMIF** - This model has been developed by the Administrators' and provides for the consolidation of the cash flows of each asset (once its strategy is finalised) together with all other fund cash inflows and outflows to be consolidated. This model allows the ongoing management and assessment of performance as the team works towards maximising the returns on assets and returning of capital to FMIF investors.

  - **Independent Data Assessment** - In assessing asset strategies and asset values we noted that in the past there had been extensive use of in-house assessments which had limitations in terms of appropriateness and accuracy. Going forward, an independent assessment of asset values will be undertaken.

As part of our ongoing Operational Plan, the Responsible Entity aims to continue identifying and implementing the necessary procedures that will accurately support strategies in place making sure they are in line with the actual ongoing costs for each asset / loan. Our objective is to maintain the controls implemented in order to provide the best reporting outcome for stakeholders.

These processes allows for the combined the Responsible Entity to fully manage the portfolio with the over-riding aim of maximising the return of capital to FMIF investors in the most time efficient and cost efficient manner. In assessing strategy, these processes allows for effective risk adjusted discounted cash flow analysis of outcomes to ensure that all risk issues are appropriately considered and included into the decision making.

3.6 Risk Identification and Quantification

Risk identification and quantification is an area of particular focus that the Responsible Entity is in the process of assessing with regards to the implementation of asset strategies. This will be an ongoing process and involves utilising a similar methodology to that of a credit risk assessment and monitoring department in a major Australian bank. Such a methodology considers:

- The asset strategy timelines / duration and risk elements this introduces to asset outcomes;
- Real estate market / value risk;
- Counterparty risks (e.g. construction contractors / project partners);
- Planning and zoning risks;
- Construction risks (time, cost, quality); and
- Environmental risks.

As we work through the FMIF assets, we are seeking to ensure that future decisions taken fully consider these risk issues, identify and progress mitigation strategies and where appropriate allow for quantification of risks in the financial assessment of alternate outcomes. This is to ensure there is a robust process to progressing strategies and that only those strategies that appropriately balance risk and return are pursued when contemplating future value accretive options (such as developing out a project).

3.7 FMIF Portfolio – Next Steps

3.7.1 Completion of Strategic Plans and Financial Assessments

Whilst the Responsible Entity is well advanced on the strategic plans and financial assessments for the assets in the FMIF, there is still much to do to complete this process. In many cases, we are still to receive additional information sought from various external parties as well as refinements to the financial modelling and cash flow analysis. There is a separate financial model for each asset which then feeds into the total FMIF portfolio model as well as a sophisticated costs / budgeting / monitoring model.

We are seeking to minimise costs in this information gathering process - using our extensive external relationships wherever possible to provide initial, high level data from these external parties to assist our option analysis for particular assets before committing to any formal reports.

All of this work is required to be completed before we can formally lock in all of the strategic plans. After just 9 weeks, we are very well advanced on what is a large portfolio of assets, many of which have significant and complex issues to consider. We currently have finalised plans in place for a number of assets in the FMIF, but about half of the assets have significant issues and potentially divergent strategic options that we must carefully review and consider before finalising those plans.

3.7.2 Progress "Quick Wins"

We have earlier discussed some of the Quick Wins that we have identified and are now progressing. These will assume a priority over the next weeks and months to ensure these are delivered in a commercially effective manner in order to maximise the returns to investors and allow for early distributions of this capital to investors.

As we continue to work through the assets and refine strategies, we will continue to look for progressive Quick Wins to maintain the momentum we have established in capital returns to investors - as there are other assets in the portfolio that will take time to resolve issues and work through the defined strategies in order to maximise the returns to investors.

3.7.3 Progress Development of Identified Assets

As mentioned, there are a number of assets where the best outcomes for investors will be to progress with development strategies (on a limited basis) in order to maximise asset values.

What we are seeking to achieve with the strategies being developed is to ensure that we consider the pathway to deliver the best outcomes for investors after considering all options and balancing risk and returns with also a strong focus on the time to deliver outcomes. In a number of instances, there are substantial "value gaps" between what an asset owes investors (original loan balance plus capitalised interest) and what the asset is presently valued at "as is". Where an option presents an appropriate balance between risk assessment and potential value uplift, we will look to progress that option in order to close as much as possible this value gap.

The initial focus is on the stalled development assets and how these can be best progressed, either through careful use of the resources of FMIF or through third party funding or JV arrangements. There are a number of these identified where options are in the process of being assessed and additional information sought. There are also a number of projects which are under development and these are being continued with close monitoring of development costs and progress utilising external third party reviews as is normal banking practice.

In potentially progressing with development options, we are also very conscious of time - we are not looking to engage in outcomes that will take many years to conclude as this introduces:

- Longer timeframes increases the potential for uncontrollable / unforseen risk elements (e.g. potential for commodity prices, currency instability, overseas government debt issues or the like) impacting on the domestic economy;
- Delays the return of capital to investors; and
- Unnecessary increases in the costs incurred through continued charging of management fees to the fund as long term projects are worked through.

3.7.4 Progress with Rezoning of Identified Assets

The Responsible Entity has already identified a number of assets were rezoning may provide value uplift and lower risk outcomes for investors. We have received a report on one of these assets (the asset concerned is quite large in terms of the overall value of FMIF) and will be shortly meeting with Council to discuss alternate zoning solutions. In this particular case, the Responsible Entity has current knowledge through other work undertaken of Council plans and strategies to rezone and redevelop adjoining areas which will have a significant and potentially positive impact to what zoning outcomes may be achievable for the FMIF asset.

4 Conclusion

In moving forward on the FMIF assets, the Responsible Entity has assembled a team with substantial experience in the development of real estate assets, financing, negotiating commercial arrangements and working through legal and financial issues and is applying sound methodologies in working through the options to progress with asset development. The Responsible Entity has taken great care to ensure that the team they have assembled to manage these FMIF assets have the requisite skills to undertake this task and also have a sole focus to this task. This ensures that the combined Responsible Entity is committed to achieving the best outcome for investors in seeking commercially balanced opportunities to develop out or otherwise transform assets (through rezoning or the like). The Responsible Entity's objective is to wind down the fund in a commercially responsible manner, balancing risk and time with expected outcomes to ensure that the portfolio returns can be largely delivered in a progressive manner over the next two years. We will keep investors informed through detailed, quarterly updates and with other communications that may be warranted from time to time.

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