LM Wholesale First Mortgage Income Fund

ARSN 099 857 511

Annual Financial Report - 30 June 2019

LM Wholesale First Mortgage Income Fund
Contents page

LM Wholesale First Mortgage Income Fund
Directors' report
30 June 2019

The Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of the LM Wholesale First Mortgage Income Fund (Scheme and WFMIF), present their report together with the financial statements of the Scheme for the year ended 30 June 2019.

Scheme information

The Scheme is a registered managed investment scheme domiciled in Australia and was registered on 22 March 2002.

Trilogy Funds Management Limited was appointed the Responsible Entity of the Scheme on 16 November 2012.

The previous Responsible Entity of the Scheme was LM Investment Management Limited (Receivers and Managers Appointed) (In Liquidation) (hereinafter referred to as the Former Responsible Entity or LMIM), who was the Responsible Entity from the registration of the Scheme until 16 November 2012.

The Responsible Entity is incorporated and domiciled in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is Level 23, 10 Eagle Street, Brisbane, QLD, 4000.

Directors

The names of the directors in office at any time during, or since the end of the financial year are:

Name and qualifications	***Age***	***Experience and special responsibilities***
Robert M Willcocks Independent Non-Executive Chairman BA, LL.B, LL.M	71	Chairman of the Audit Committee Former partner with Mallesons Stephen Jaques (now King & Wood Mallesons) Mr Willcocks has been a non-executive director (sometimes Chairman) of a number of listed public companies and is currently such a director of two such companies Chairman - Responsible Entity since 9 October 2009
Rodger I Bacon Executive Deputy Chairman BCom(Merit), AICD, SFFin	73	Member of the Audit Committee Former executive director of Challenger International Limited Mr Bacon is a former director of several companies including, Financial Services Institute of Australasia. Director – Responsible Entity since 9 July 2004
John C Barry Executive Director BA, FCA	67	Member of the Audit Committee Former executive director of Challenger International Limited Mr Barry is a director of several companies, including former Chairman of Westpac RE Limited Director – Responsible Entity since 9 July 2004
Philip A Ryan Executive Director and Company Secretary LL.B, Grad Dip Leg Prac, FTIA, FFIN	58	Member of the Compliance Committee Mr Ryan is a solicitor and member of the Queensland Law Society Inc. Former partner of a Brisbane law firm Mr Ryan is a director of several companies Director – Responsible Entity since 13 October 1997

Directors (continued)

Name and qualifications	*Age*	*Experience and special responsibilities*
Rohan C Butcher Non-Executive Director Grad Dip PM, BASc(QS), Registered Builder, Licensed Real Estate Agent	50	Member of the Audit Committee Member of the Lending Committee Consultant to several major companies providing development management services Director – Responsible Entity since 29 July 2008

Principal activities
The Scheme holds Class B units in the LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed) (hereinafter referred to as the FMIF) in accordance with the Scheme's Constitution and in accordance with the investment policy of the Scheme that was outlined in the product disclosure statement (PDS). The Scheme remains closed to new investor applications and investor redemptions with the exception of approved hardship withdrawals (also currently suspended).

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.

Review of operations and results

Financial overview
The net loss attributable to unitholders after incorporating impairment losses of $1,767,578 (2018: losses of $400,695) for the year ended 30 June 2019 totalled $2,442,693 (2018: loss $704,146).

The net assets of the Scheme as at 30 June 2019 were $10,113,058 (2018: $12,555,751), resulting in a net asset value (NAV) per unit of $0.1131 (2018: $0.1418). This reduction in NAV was primarily due to the fall in value of the Scheme's investment in the FMIF, as a result of costs from the Receivers and legal fees from litigation.

Appointment of Receiver to the FMIF
As noted in the 2013 Annual Financial Report, Mr David Whyte of BDO (hereinafter referred to as the Receiver or BDO) was appointed Receiver of the FMIF, the unlisted managed investment scheme which the Scheme invests in, on 8 August 2014 by the Supreme Court of Queensland.

While the Scheme has been largely dormant throughout the period, the Responsible Entity has had to defend proceedings brought by the Receiver of the FMIF against the Scheme, mediate resolution of this and defend a claim against the Scheme by the auditors of the FMIF. Refer events subsequent to the end of the reporting year section below for further details.

Throughout the period the Responsible Entity has continued to review the Receiver's reports to unitholders for details of any material updates to the affairs of the FMIF that would have an impact on the Scheme. As at the date of the latest report from the Receiver (26th report), being 30 June 2019, no such material events had taken place other than those mentioned above and those included in the events subsequent to the end of the reporting year section below. The Responsible Entity will advise unitholders in due course should any events take place involving the FMIF which will have an impact on the Scheme. The Scheme has exhausted its cash reserves and all current costs are being funded by the Responsible Entity and associated entities.

A claim was also been brought by the Receiver against the former auditors, who in turn served third party notices upon the Feeder Funds, including the WFMIF.

Review of operations and results (continued)

Appointment of Receiver to the FMIF (continued)

The claim brought by the Receiver against the Feeder Funds with respect to the distributions and redemptions made by LM Investment Management Limited was successfully mediated on 5, 6 and 20 November 2018 and a deed of settlement on a confidential basis was entered into by the parties, which was ultimately sanctioned by the court before Justice Mullins.

Distributions to unitholders

The directors of the Former Responsible Entity made the decision to suspend distributions from the Scheme from 1 January 2011 and there has been no change to this decision during the year.

Units on issue

During the year no units were issued (2018: nil), or redeemed from the Scheme (2018: nil). The Scheme had 89,419,882 units on issue as at 30 June 2019 (2018: 89,419,882).

Indirect cost ratio (ICR)

The ICR is the ratio of the Scheme's management costs over the Scheme's average net assets for the year, expressed as a percentage.

The ICR for the Scheme for the year ended 30 June 2019 is 4.86% p.a. (2018: 1.16% p.a.).

Fees paid to the Responsible Entity

The following fees were paid or payable to the Responsible Entity and its associates out of the Scheme property during the financial year (refer Note 13(c)).

	2019	2018
	$	$
Responsible Entity fees		
Responsible Entity management fees (i)	**69,193**	70,563
Interest expenses	**91,610**	55,168
	160,803	125,731

(i) Due to liquidity constraints none of the total fees and expense reimbursements charged by the Responsible Entity were able to be paid by the Scheme during the year. This carries on from the 2014 financial year in which only $72,420 worth of fees were paid. At the time of this report the balance of unpaid fees remains as a liability in the Scheme's Statement of financial position.

Significant changes in the state of affairs

Intention to wind-up

The financial statements of the Scheme have been prepared on a wind-up basis as it is the Responsible Entity's intention to realise all Scheme assets and return net proceeds to unitholders. The Responsible Entity has adopted this accounting basis as a result of the FMIF being in the process of being wound-up. Under the wind-up basis of reporting, assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

Events subsequent to the end of the reporting year

Supreme Court of Queensland hearing
On 2 and 3 May 2019, the Supreme Court of Queensland heard an originating application brought by Trilogy Funds Management Limited as Responsible Entity for the WFMIF and The Trust Company Ltd as custodian of the property of the WFMIF, seeking directions that they are justified in settling Supreme Court proceeding 13534 of 2016 (the Feeder Fund Proceedings) on terms set out in a Deed of Settlement and Release as varied by a Variation to the Deed of Settlement and Release; and that they are justified in entering into and performing the Deed of Settlement. The Application was heard by the Honourable Justice Mullins, who directed that Trilogy Funds Management Limited, as the Responsible Entity of the WFMIF, and The Trust Company Ltd as the custodian of the property of the WFMIF, were justified:

(i) in settling the Feeder Fund Proceedings on the terms set out in a Deed of Settlement and Release as varied by a Deed of Variation (Deed of Settlement); and

(ii) into entering and performing the Deed of Settlement.

In February 2019 David Whyte sought approval from the courts to make a distribution. This was heard by Justice Jackson who in October 2019, inter alia, approved the distribution.

A claim was also been brought by the Receiver against the former auditors, who in turn served third party notices upon the Feeder Funds, including the WFMIF. Following the hearing of the matter by Justice Jackson in October 2019 the action against the Feeder Funds will now be discontinued.

Return of Capital
Following the successful outcome from the Feeder Fund Proceedings, the Receiver will commence returning capital to the unitholders of the FMIF, of which the Scheme will be entitled. The Scheme received $5,716,634 on 16 October 2019. The receiver has indicated that further distributions may be made, subject to the successful outcome of various proceedings. The Responsible Entity will deduct all outstanding liabilities including sufficient working capital to fund Scheme expenses for the next 12 months, from the first instalment prior returning capital to its unitholders.

WFMIF's investment in FMIF
BDO as Receiver of the FMIF published management accounts (unaudited) of the FMIF for the year ended 30 June 2019 in October 2019, whereby they determined the net asset value per unit to be $0.1260 based on 478,100,386 units. Following the courts determination in October 2019 to allow the Receiver to begin returning capital to investors of the FMIF, Justice Jackson further declared that the foreign currency investors in the FMIF were to be converted to Australian dollars on 8 August 2013, being the date of commencement to windup the FMIF. As a consequence, this decision resulted in additional units being issued in the FMIF, such that the total units on hand as at 30 June 2019 be restated to 492,125,624 units. In assessing the WFMIF's fair value of its investment in the FMIF, the Responsible Entity applied the revised number of units in arriving at a revised net asset value per unit of the FMIF as at 30 June 2019 of $0.1221. It is important to note that the Directors of the Responsible Entity have not received nor reviewed any reports or work papers from the Receiver of the FMIF or the liquidator of LMIM in its determination of the Scheme's fair value of its investment in the FMIF as at 30 June 2019.

Other than the items noted above and the Contingent liabilities section below, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Likely developments and expected results of operations

As stated above, the FMIF has been ordered to be wound-up in an effort to realise all of its assets and provide a return to existing unitholders. As the Scheme's single investment is in the FMIF, the Scheme is considered to be economically dependent on the FMIF and the Responsible Entity. Accordingly, the winding up of the FMIF will ultimately result in the complete realisation of the Scheme's investment in the FMIF, thus it is the Responsible Entity's intention to wind-up the Scheme once the wind-up of the FMIF has been achieved.

Environmental regulation

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

Options

No options were:

(i) Granted over unissued units in the Scheme during or since the end of the financial year; or
(ii) Granted to the Responsible Entity.

No unissued units in the Scheme were under option as at the date on which this report is made.

No units were issued in the Scheme during or since the end of the financial year as a result of the exercise of an option over unissued units in the Scheme.

Indemnification of officers

Indemnification

Under the Scheme constitution the Responsible Entity is required to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

(a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person’s favour, or in which the person is acquitted, or in the connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
(b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

Insurance premiums

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

Indemnification of auditors

To the extent permitted by law, the Scheme has agreed to indemnify its auditors, Nexia Brisbane Audit Pty Ltd, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Nexia Brisbane Audit Pty Ltd during or since the financial year.

Proceedings on behalf of the Responsible Entity

No person has applied for leave of Court to bring proceedings on behalf of the Responsible Entity or intervene in any proceedings to which the Responsible Entity is a party for the purpose of taking responsibility on behalf of the Responsible Entity for all or any part of those proceedings. The Responsible Entity was not a party to any such proceedings during the year.

Contingent liabilities

Advisor commissions

Included in trade and other payables at the time of the Responsible Entity's appointment was a balance of $301,934 for accrued commissions owed to financial advisors who had previously introduced new investors to the Scheme. The Scheme has retained this accrual in the Statement of financial position, however the Responsible Entity has ceased to accrue any further commissions subsequent to its appointment until legal advice is obtained as to the extent, if any, of the Scheme's legal obligation to accrue such commissions.

Consequently, the Scheme may be liable for the payment of additional commissions to advisors pertaining to the period from the Responsible Entity's appointment to the date of this report, however the Responsible Entity is unable to quantify the value of any additional accrual required at this point in time.

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.

This report is made in accordance with a resolution of the Directors of the Responsible Entity.

Philip A Ryan	Rodger I Bacon
Managing Director	Executive Deputy Chairman
15 November 2019	15 November 2019
Brisbane	Brisbane

Nexia Australia

To the Board of Directors of Trilogy Funds Management Limited, the Responsible Entity of LM Wholesale First Mortgage Income Fund

Auditor's Independence Declaration

Under section 307C of the *Corporations Act 2001*

As lead audit partner for the audit of the financial statements of LM Wholesale First Mortgage Income Fund for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Robertson.

AM Robertson
Director

Date: 15 November 2019

Nexia Brisbane Audit Pty Ltd
Registered Audit Company 299289
Level 28, 10 Eagle Street
Brisbane QLD 4000
GPO Box 1189
Brisbane QLD 4001
p +61 7 3229 2022
f +61 7 3229 3277
e email@nexiabrisbane.com.au
w nexia.com.au

LM Wholesale First Mortgage Income Fund
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Revenue and other income		**-**	-
Expenses			
Administration expenses		**(5,099)**	(6,459)
Auditor's remuneration	6	**(13,200)**	(19,250)
Compliance fees		**(354)**	(1,539)
Custodian fees		**(9,418)**	(8,307)
Impairment losses - financial assets	9(b)	**(1,767,578)**	(400,695)
Insurance expenses		**(47,060)**	(26,434)
Legal expenses		**(412,559)**	(98,422)
Other expenses		**(4,693)**	(406)
Registry fees		**(12,000)**	(12,000)
Responsible Entity management fees	13(c)	**(69,193)**	(70,563)
Taxation fees		**(9,929)**	(4,903)
		(2,351,083)	(648,978)
Loss for the year before finance costs		**(2,351,083)**	(648,978)
Finance costs:			
Interest expenses		**(91,610)**	(55,168)
Loss for the year attributable to unitholders		**(2,442,693)**	(704,146)
Total comprehensive loss for the year		**(2,442,693)**	(704,146)

LM Wholesale First Mortgage Income Fund
Statement of financial position
As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents	7	**2,619**	2,619
Trade and other receivables	8	**-**	326
Financial assets	9	**12,150,542**	13,918,120
Total assets		**12,153,161**	13,921,065
Liabilities			
Trade and other payables	10	**1,964,206**	1,289,417
Distributions payable	5	**75,897**	75,897
Total liabilities (excluding liabilities attributable to unitholders)		**2,040,103**	1,365,314
Net assets		**10,113,058**	12,555,751
Represented by:			
Net assets attributable to unitholders	11	**10,113,058**	12,555,751

LM Wholesale First Mortgage Income Fund
Statement of cash flows
For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Payments to suppliers		**-**	(90)
GST refunds		**-**	181
Net cash provided by operating activities	12	**-**	91
Net increase in cash and cash equivalents		**-**	91
Cash at beginning of the reporting period		**2,619**	2,528
Cash and cash equivalents at end of financial year	7	**2,619**	2,619

Note 1 Reporting entity

LM Wholesale First Mortgage Income Fund (Scheme and WFMIF) is a registered managed investment scheme under the Corporations Act 2001 (Act). The financial statements of the Scheme are for the year ended 30 June 2019, and have been prepared on a wind-up basis rather than on a going concern basis. Under the wind-up basis of reporting, assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. The Scheme is a for-profit entity.

The Scheme was constituted on 22 March 2002 and will terminate on 22 March 2082, unless terminated in accordance with the Scheme's Constitution. At this time, the Scheme is to realise all assets and satisfy all liabilities, with surplus funds being distributed to unitholders. It is the intention of the Responsible Entity to wind-up the Scheme following the completion of the winding up of the LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed) (hereinafter referred to as the FMIF).

Note 2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board and the Act. The financial report of the Scheme complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

In adopting the wind-up basis of reporting, assets are stated at their anticipated settlement amounts. The estimated net residual value of assets represents the Responsible Entity's best estimate of the recoverable value of assets, net of selling expenses. Given the uncertainties in valuing assets on a wind-up basis, it is likely that the valuation of assets included in these financial statements may differ from actual values on realisation.

The financial statements were approved by the Board of Directors of Trilogy Funds Management Limited (Responsible Entity or Trilogy) on 15 November 2019. The Directors have the power to amend and reissue the financial report.

(b) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Scheme’s functional currency.

(c) Key assumptions and sources of estimation

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in assessing the anticipated settlement amounts that have most significant effect on the amounts recognised are disclosed in:

- Note 9: Financial assets; and
- Note 14: Financial risk management

Note 2 Basis of preparation (continued)

(c) Key assumptions and sources of estimation (continued)

Fair value of financial assets

When the fair value of financial assets 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 judgement is required in establishing fair values.

The judgements 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 Responsible Entity's considerations for the assessment of the Fund's investment in an unlisted managed investment scheme (MIS) are disclosed in Note 9.

(d) Information provided by the previous Responsible Entity - LM Investment Management Limited

Trilogy was registered as the Responsible Entity of the Scheme on 16 November 2012, and was not the Responsible Entity of the Scheme at any time prior to that date. Accordingly, the Board of Trilogy did not have oversight or control over the Scheme's financial reporting systems, risk management systems or internal control systems prior to 16 November 2012.

LM Investment Management Limited (Receivers and Managers Appointed) (In Liquidation) (hereinafter referred to as the Former Responsible Entity or LMIM), the previous Responsible Entity of the Scheme, did not lodge audited financial accounts or statements for the financial years ended 30 June 2012, and 30 June 2013. The Directors of Trilogy prepared audited financial accounts and provided the Directors' Declaration for the financial years ended 30 June 2012 and 30 June 2013 in accordance with section 295(4)(d) of the Corporations Act 2001, but subject to the above limitations and based on:

(i) the assumption that, during the period from 1 July 2011 to 16 November 2012, that LMIM was the Responsible Entity of the Scheme, the financial reporting systems, risk management systems and internal control systems of the Scheme were operating effectively in all material respects in relation to financial reporting risks. The Directors have no reason to not make this assumption, however, the Directors are not in a position to verify the assumption beyond what the Scheme's auditor has done; and

(ii) assurances provided by LMIM in respect of the information and records made available to Trilogy as part of the arrangements involving the replacement of LMIM by Trilogy as Responsible Entity of the Scheme. The Directors have no reason to not accept these assurances, however, the Directors are not in a position to verify the assurances beyond what the Scheme's auditor has done.

Note 3 Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of the adoption of AASB 9 *Financial Instruments: Recognition and Measurement* and AASB 15 *Revenue from Contracts with Customers* and other new and amended standards and interpretations commencing 1 July 2018 which have been adopted where applicable.

The Scheme has adopted AASB 9 and AASB 15 at 1 July 2018. AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. AASB 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

Note 3 Significant accounting policies (continued)

(a) AASB 9 *Financial Instruments*

There have been no significant changes to the Scheme's financial performance and position as a result of the adoption of the new and amended accounting standards and interpretations effective for annual reporting periods beginning on or after 1 January 2018, and new disclosures have been included where required.

The requirements of AASB 9 represent a significant change from AASB 139 Financial Instruments: Recognition and Measurement. The nature and effects of the key changes to the Scheme's accounting policies resulting from the adoption of AASB 9 are summarised below.

(i) Classification and measurement of financial assets and financial liabilities
On 1 July 2018 (the date of initial application of AASB 9), the Scheme has assessed which business models apply to the financial assets held by the Scheme and has classified its financial instruments into the appropriate AASB 9 categories. The adoption of AASB 9 has not impacted the carrying value of financial assets.

AASB 9 requires that all financial liabilities be subsequently classified at amortised cost, except in certain circumstances. None of these circumstances apply to the Scheme and accordingly there is no change to the classification of the Scheme's payables and borrowings on adoption of AASB 9.

(ii) Impairment of financial assets
AASB 9 replaces the ‘incurred loss’ model in AASB 139 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI), but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139. The Scheme has assessed the impact of the adoption of an ECL model under AASB 9 and no adjustment to the opening balance has been recognised. See section (iv) ‘Recoverability of loans and receivables’ section below for details on how ECL amounts are determined.

(iii) Accounting policies
AASB 9 contains three principal classification categories for financial assets:

a) measured at amortised cost;
b) fair value through other comprehensive income (FVOCI); and
c) fair value through profit and loss (FVTPL).

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at amortised cost

Loans and receivables
Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any allowance under the ECL model.

Recoverability of loans and receivables
At each reporting date, the Scheme assesses whether financial assets carried at amortised cost are ‘credit-impaired’. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Note 3 Significant accounting policies (continued)

(a) AASB 9 *Financial Instruments* (continued)

Financial assets at amortised cost (continued)

(iii) Accounting policies (continued)

Recoverability of loans and receivables (continued)

The Scheme recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivable and are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Scheme in accordance with the contract and the cash flows that the Scheme expects to receive).

The Scheme analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL. Debts that are known to be uncollectable are written off when identified.

(iv) Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively. There has been no impact on the Scheme's previously reported financial position as a result of the adoption of AASB 9.

(b) AASB 15 *Revenue from Contracts with Customers*

The requirements of AASB 15 replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statements with more informative and relevant disclosures.

(i) Classification and measurement of revenue

Revenue is recognised over time if:

a) the customer simultaneously receives and consumes the benefits as the entity performs;
b) the customer controls the asset as the entity creates or enhances it; or
c) the seller’s performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

(ii) Transition

Changes in accounting policies resulting from the adoption of AASB 15 have been applied retrospectively. There has been no impact on the Scheme's previously reported financial position as a result of the adoption of AASB 15.

(c) Expenses

All expenses, including management fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Note 3 Significant accounting policies (continued)

(d) Taxation

Under current legislation the Scheme is not subject to income tax as its taxable income including assessable realised capital gains is distributed in full to the unitholders. The Scheme fully distributes its distributable income, calculated in accordance with the Scheme’s constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution.

Financial instruments held at fair value may include 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 future realised capital gains. If realised capital gains exceeds realised capital losses the excess is distributed to the unitholders.

(e) Unit prices

The unit price is based on unit price accounting outlined in the Scheme's Constitution and Product Disclosure Statement (PDS).

(f) Distributions to unitholders

Distributions to unitholders on units issued are recognised in the profit or loss as distributions paid/payable. Distributions unpaid at the end of the financial year are recognised in the Statement of financial position as a financial liability. Income distributions paid to unitholders are included in cash flows from operating activities, while capital distributions paid to unitholders are included in cash flows from investing activities in the statement of cash flows.

Class A unitholders' distribution entitlements are calculated in accordance with declared distribution rates and are either distributed to unitholders in cash or are reinvested via the purchase of additional units in the Scheme.

Class B unitholders' distribution entitlements are calculated in accordance with declared distribution rates and the distribution entitlements are rolled up into the published unit price.

(g) 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 after the cancellation of units redeemed. Unit application and redemption prices are determined by reference to the net assets of the Scheme divided by the number of units on issue at the date of application or redemption.

(h) Terms and conditions of units on issue

Each unit confers upon the unitholder an equal interest in the Scheme and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income and capital distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

The Scheme is not required to complete a statement of changes in equity as all unitholder funds have been classified as a financial liability.

Note 3 Significant accounting policies (continued)

(i) 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 provided or accrued 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.

(j) Trade and other receivables

Receivables are recorded at amortised cost less impairment and may include amounts for distributions and interest. Distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(k) Goods and services tax

Management fees and other expenses are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC).

Payables are stated with the amount of GST included.

The GST position of the Scheme is presented in the statement of financial position on a net basis.

Cash flows are included in the statement of cash flows on a gross basis.

(l) Advisor commissions

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

(m) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Scheme during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(n) Impairment of non-financial assets

At the end of each reporting period, the Responsible Entity assesses whether there is any indication that an asset maybe impaired. The Responsible Entity's assessment for impairment for the year ended 30 June 2019 is disclosed in Note 9.

(o) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

(p) New standards and interpretations not yet adopted

Certain new Accounting Standards and Interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Scheme. The Scheme's assessment of the impact of these new Standards and Interpretations is set out below.

(i) AASB 16 Leases

Nature of change	When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117 Leases and related Interpretations. AASB 16 introduces a single lease accounting model that eliminates the requirement for leases to be classified as operating or finance leases.
Application date	Mandatory for financial years commencing on or after 1 July 2019. At this stage, the Scheme does not intend to adopt the standard before its effective date. The Trust intends to apply the simplified transition approach and will likely not restate comparative amounts for the year prior to first adoption.
Impact to the Scheme	The adoption of the new standard will not have a material impact to the Scheme.

Note 4 Correction of prior period error

The Scheme had not previously included amounts for interest on balances outstanding to the Responsible Entity, Trilogy Funds Management Limited and its related parties. As a result of this Trade and other payables were incorrectly stated. The Responsible Entity and its related parties has funded all costs of the Scheme due to liquidity constraints that have arisen from the cessation of distributions by the FMIF. This resulted in an adjustment to the opening balance of the net assets attributable to unitholders at 1 July 2017 of $66,596 and interest expense in the Statement of Profit or Loss and Other Comprehensive Income in the year ended 30 June 2018 of $55,168. The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	30 Jun 2018 $	Increase / (Decrease) $	30 Jun 2018 (restated) $
Statement of profit or loss and other comprehensive income			
Revenue	-	-	-
Total expenditure	(648,978)	(55,168)	(704,146)
Loss for the year attributable to unitholders	(648,978)	(55,168)	(704,146)
Statement of financial position			
Assets			
Cash and cash equivalents	2,619	-	2,619
Trade and other receivables	326	-	326
Financial assets	13,918,120	-	13,918,120
Total assets	13,921,065	-	13,921,065
Liabilities			
Trade and other payables	1,167,653	121,764	1,289,417
Distributions payable	75,897	-	75,897
Total liabilities	1,243,550	121,764	1,365,314
Net assets	12,677,515	(121,764)	12,555,751
Opening net assets attributable to unitholders			
Balance at 1 July 2017	13,326,492	(66,596)	13,259,896

Note 5 Distributions to unitholders

As at 30 June 2019, $75,897 of distributions declared prior to the 30 June 2012 financial year remained payable to unitholders (2018: $75,897). No further distributions have been declared since the 30 June 2012 financial year.

The directors of the Former Responsible Entity made the decision to suspend distributions from the Scheme from 1 January 2011 and there has been no change to this decision during the year.

Note 6 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Scheme, Nexia Brisbane Audit Pty Ltd:

	2019	2018
	$	$
Audit and other assurance services		
• Audit of the financial statements	**9,900**	15,950
• Audit of the compliance plan	**3,300**	3,300
Total auditor's remuneration	**13,200**	19,250

Note 7 Cash and cash equivalents

	2019	2018
	$	$
Cash at bank	**2,619**	2,619

Note 8 Trade and other receivables

	2019	2018
	$	$
GST receivable	**-**	326

(a) Impaired receivables
As at 30 June 2019 no receivables were considered to be impaired (2018: nil).

(b) Not past due or impaired receivables
The Scheme does not hold any financial assets whose terms have been renegotiated, but which would otherwise be past due or impaired.

(c) Collateral pledged
No collateral is held over trade and other receivables.

Note 9 Financial assets

	2019	2018
	$	$
Designated at fair value through profit or loss		
Investment in unlisted managed investment scheme	**96,404,851**	96,404,851
Impairment losses	**(84,254,309)**	(82,486,731)
	12,150,542	13,918,120

The Scheme invests in an unlisted managed investment scheme, the FMIF which in turns invests in a portfolio of registered first mortgages over a selection of properties and cash.

(a) Movement in financial assets

A reconciliation of the carrying value of the investment in unlisted managed investment schemes during the year is set out below:

	2019		2018	
	Units	**$**	Units	$
Balance at 1 July	**99,488,929**	**13,918,120**	99,488,929	14,318,815
Return of capital	**-**	**-**	-	-
	99,488,929	**13,918,120**	99,488,929	14,318,815
Fair value adjustments	**-**	**(1,767,578)**	-	(400,695)
Balance at 30 June	**99,488,929**	**12,150,542**	99,488,929	13,918,120
Value of investment per unit		**0.1221**		0.1399

(b) Impairment of financial assets

As at 30 June 2019, as part of the annual balance date review procedures the Scheme recorded impairment losses in respect of its investment in the FMIF of $1,767,578 for the year (2018: impairment losses of $400,695). As a result the Scheme's investment value reduced from $0.1399 per unit as at 30 June 2018, to $0.1221 per unit as at 30 June 2019.

Movement in the provision for impairment of financial assets is as follows:

	Opening balance	**Charge / (writeback) for the year**	**Amounts written off**	**Closing balance**
	$	**$**	**$**	**$**
2019				
Investment in FMIF	82,486,731	1,767,578	-	84,254,309
2018				
Investment in FMIF	82,086,036	400,695	-	82,486,731

(b) Impairment of financial assets (continued)

Directors' valuation

BDO as Receiver of the FMIF published management accounts (unaudited) of the FMIF for the year ended 30 June 2019 in October 2019, whereby they determined the net asset value per unit to be $0.1260 based on 478,100,386 units. Following the courts determination in October 2019 to allow the Receiver to begin returning capital to investors of the FMIF, Justice Jackson further declared that the foreign currency investors in the FMIF were to be converted to Australian dollars on 8 August 2013, being the date of commencement to windup the FMIF. As a consequence, this decision resulted in additional units being issued in the FMIF, such that the total units on hand as at 30 June 2019 be restated to 492,125,624 units. In assessing the WFMIF's fair value of its investment in the FMIF, the Responsible Entity applied the revised number of units in arriving at a revised net asset value per unit of the FMIF as at 30 June 2019 of $0.1221. It is important to note that the Directors of the Responsible Entity have not received nor reviewed any reports or work papers from the Receiver of the FMIF or the liquidator of LMIM in its determination of the Scheme's fair value of its investment in the FMIF as at 30 June 2019.

In the current economic climate, including the matters referred to above, and in Note 14, there exists significant uncertainty as to the amount that could be realised following the sale of security properties, the time it may take to achieve a sale, and the availability of funding. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

Note 10 Trade and other payables

	2019	2018
	$	$
Trade payables	**355,430**	241,639
Commissions payable (i)	**301,934**	301,934
Other payables	**21,840**	26,255
Fees and costs payable to the Responsible Entity and its related parties	**1,285,002**	597,825
	1,964,206	1,167,653

(i) The Responsible Entity has ceased accruing further advisor commissions since the time of its appointment until legal advice is sought as to the extent, if any, of its legal obligation to accrue such commissions (a process that has proved difficult to finalise due to a lack of relevant information being readily accessible). Refer Note 17 for further details.

Note 11 Net assets attributable to unitholders

	2019			2018		
	Ordinary units	**Contributed capital**	**Accumulated profits**	Ordinary units	Contributed capital	Accumulated profits
	No	**$**	**$**	No	$	$
A Class Units						
Opening balance	**79,855,271**	**79,949,975**	**79,949,975**	79,855,271	79,949,975	79,949,975
Units issued	**-**	**-**	**-**	-	-	-
Units redeemed	**-**	**-**	**-**	-	-	-
Reinvestments *	**-**	**-**	**-**	-	-	-
	79,855,271	**79,949,975**	**79,949,975**	79,855,271	79,949,975	79,949,975
B Class Units						
Opening balance	**9,564,611**	**14,695,581**	**14,695,581**	9,564,611	14,695,581	14,695,581
Units issued	**-**	**-**	**-**	-	-	-
Units redeemed	**-**	**-**	**-**	-	-	-
Reinvestments	**-**	**-**	**-**	-	-	-
	9,564,611	**14,695,581**	**14,695,581**	9,564,611	14,695,581	14,695,581

Note 11 Net assets attributable to unitholders (continued)

	2019			2018		
	Ordinary units No	**Contributed capital $**	**Accumulated profits $**	Ordinary units No	Contributed capital $	Accumulated profits $
Investor funds	**89,419,882**	**94,645,556**	**94,645,556**	89,419,882	94,645,556	94,645,556
Cumulative movement **	**-**	**-**	**(84,532,498)**	-	-	(82,089,805)
Net assets ***	**89,419,882**	**94,645,556**	**10,113,058**	89,419,882	94,645,556	12,555,751

* Units issued upon reinvestment of distributions
** Cumulative movement in changes in net assets attributable to unitholders
*** Net assets attributable to unitholders

	2019	2018
Net asset value per unit as at 30 June	**$ 0.1131**	$ 0.1418

Class A unitholders distribution entitlements are calculated in accordance with declared distribution rates and are either distributed to unitholders in cash or are reinvested via the purchase of additional units in the Scheme.

Class B unitholders distribution entitlements are calculated in accordance with declared distribution rates and the distribution entitlement is rolled up into the published unit price.

Note 12 Reconciliation of cash flows from operating activities

	2019 $	2018 $
Loss for the year attributable to unitholders	**(2,442,693)**	(648,978)
Adjustments for:		
Impairment losses - financial assets	**1,767,578**	400,695
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**326**	(322)
Increase in trade and other payables	**674,789**	248,696
Net cash provided by operating activities	**-**	91

Note 13 Related party transactions

(a) Responsible Entity

LM Investment Management Limited was removed as Responsible Entity of the Scheme on 16 November 2012. Trilogy Funds Management Limited was appointed Responsible Entity for the Scheme on 16 November 2012.

(b) Key management personnel

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme. The Executive Directors of the Responsible Entity are key personnel of that entity and their names are Rodger I Bacon, John C Barry and Philip A Ryan. The Responsible Entity also has two Non-Executive Directors being Robert M Willcocks and Rohan C Butcher.

Note 13 Related party transactions (continued)

The Directors of the Former Responsible Entity were also key personnel of the Scheme until 16 November 2012 and their names are, Peter Drake, Lisa Darcy (resigned 21 June 2012), Eghard van der Hoven, Francene Mulder, Simon Tickner (resigned 13 July 2012), Grant Fischer (resigned 12 August 2012), and John O'Sullivan (resigned 19 September 2012).

No compensation is paid to the Directors of the Responsible Entity, nor to the key personnel of the Responsible Entity by the Scheme.

(c) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

i. Transactions recorded in the statement of profit or loss and other comprehensive income

	2019	2018
	$	$
Responsible Entity fees		
Responsible Entity management fees (i)	**69,193**	70,563
Responsible Entity interest on balances outstanding	**91,610**	55,168
	160,803	125,731

(i) Due to liquidity constraints none of the total fees and expense reimbursements charged by the Responsible Entity or other related parties were able to be paid by the Scheme during the year. At the time of this report the balance of unpaid fees and expenses remains as a liability in the Scheme's statement of financial position.

ii. Balances recorded in the statement of financial position

	Note	**2019**	2018
		$	$
Financial assets	9	**12,150,542**	13,918,120

(d) Investing activities

Details of the Scheme's investments in other schemes operated by LMIM or its affiliates are set out below, and have been based on the equivalent of $1.00 per unit.

Scheme	**Investment at year end No**	**Held in related scheme at year end (i) %**	**Units acquired during year No**	**Units redeemed during year (ii) No**	**Distributions paid or payable** $
2019					
FMIF - Class B Units	99,488,929	20.81	-	-	-
2018					
FMIF - Class B Units	99,488,929	20.81	-	-	-

(i) The interest held in related schemes at year end is based upon the total number of units disclosed in the management accounts of the FMIF for the year ended 30 June 2019.

(ii) The total value of units in the FMIF redeemed by the Scheme during the year was nil (2018: nil).

Note 13 Related party transactions (continued)

(e) Key management personnel loan disclosures
The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(f) Other transactions within the Scheme
Apart from those details disclosed in this note, no Director of the Responsible Entity has entered into a material contract with the Scheme from inception to the end of the financial year and no material contracts involving Directors of the Responsible Entity's interests subsisted at year end.

Note 14 Financial risk management

Statement of responsibility
The statements below relate to the management of the Scheme following the appointment of Trilogy Funds Management Limited as Responsible Entity.

Overview
The Scheme's assets principally consist of investments in cash and units in a registered managed investment scheme, the FMIF. The Scheme, through its investment in the FMIF, holds this investment asset in accordance with the Scheme's constitution and PDS. The Scheme remains closed to new investor applications and investor redemptions with the exception of approved hardship withdrawals.

Specific financial risk exposures and management
The main risks the Scheme is exposed to through its financial instruments are credit risk, liquidity risk, operational risk and market risk relating to interest rate risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Board is responsible for developing and monitoring the Scheme's risk management policies. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Responsible Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Responsible Entity's Compliance Committee and its Audit, Compliance and Risk Management Committee oversees how management monitors compliance with the Scheme's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Scheme.

Note 14 Financial risk management (continued)

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme and cause a loss. The Responsible Entity manages the exposure to credit risk on an ongoing basis.

The carrying amount of the Scheme's financial assets represents the maximum credit exposure. The Scheme's maximum exposure to credit risk at the reporting date is as follows:

	Note	2019	2018
		$	$
Financial assets			
Cash and cash equivalents	7	**2,619**	2,619
Trade and other receivables	8	**-**	326
Financial assets	9	**12,150,542**	13,918,120
Total financial assets		**12,153,161**	13,921,065

The FMIF's investments consisted primarily of construction and development loans which required a high degree of experience in their assessment and management. This risk is no longer relevant as all properties secured by loans written by the FMIF have been realised.

The ageing of trade receivables at the reporting date are all current with no amounts impaired (refer Note 8).

(b) Liquidity risk

Liquidity risk arises from the possibility that the Scheme might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Scheme's liquidity risk is managed on a daily basis by the Responsible Entity in accordance with policies and procedures in place. The Scheme's overall liquidity risks are monitored on a monthly basis by the Board of Directors. As the Scheme has limited cash reserves due to the cessation of distributions from the FMIF in recent times, the Responsible Entity provides funding to allow the Scheme to meet its working capital requirements (refer Note 15 for details).

The timing of cash flows presented in the table below to settle financial liabilities reflect the earliest contractual settlement date.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

	Carrying amount	Contractual cash flows	< 3 months	3-6 months	On call
	$	$	$	$	$
2019					
Financial liabilities					
Distributions payable	75,897	75,897	-	-	75,897
Unitholder funds *	10,113,058	10,113,058	-	-	10,113,058
	10,188,955	10,188,955	-	-	10,188,955
2018					
Financial liabilities					
Distributions payable	75,897	75,897	-	-	75,897
Unitholder funds *	12,555,751	12,555,751	-	-	12,555,751
	12,631,648	12,631,648	-	-	12,631,648

Note 14 Financial risk management (continued)

(b) Liquidity risk (continued)

* Redemptions and distributions to unitholders remain suspended as resolved by the Former Responsible Entity following the closure of the FMIF.

(c) Capital management

As the Scheme has limited cash reserves and is reliant upon distributions from the FMIF to complete realisation of its remaining assets, the Scheme has limited capital management objectives at present. Furthermore, the ability to satisfy its liabilities as they fall due is currently dependent upon the ongoing financial support provided by the Responsible Entity (refer Note 15 for details).

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Scheme's income or the value of its holdings of financial instruments. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i. *Interest rate risk*

The Scheme is not materially exposed to interest rate risk on its financial assets and liabilities.

ii. *Property value risk*

All of the Scheme's financial assets (with the exception of cash and cash equivalents and receivables) are units in a fund which has realised all of its mortgage securities. As a result, the Scheme is no longer subject to property value risk in the prevailing levels of market property values.

iii. *Other market risk*

The Scheme is not exposed to other material market risk on its financial assets and liabilities.

(e) Fair value estimation

The fair values of financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

Financial assets held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs on financial assets at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the profit or loss.

(f) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Scheme classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Note 14 Financial risk management (continued)

(f) Fair value hierarchy (continued)

(i) Classification of financial assets and financial liabilities (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The valuation techniques used by the Scheme to measure fair value maximise the use of observable inputs and minimise the use of unobservable inputs.

The table below sets out the Scheme's financial assets and financial liabilities measured at fair value according to the fair value hierarchy as at 30 June 2019 and 30 June 2018.

	Level 1	Level 2	Level 3	Total
	$	$	$	$
2019				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Investment in unlisted MIS	-	-	12,150,542	12,150,542
Financial liabilities	-	-	-	-
2018				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Investment in unlisted MIS	-	-	13,918,120	13,918,120
Financial liabilities	-	-	-	-

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include investments held by the Scheme. As observable prices are not available for these securities, the Responsible Entity has used information that is publicly available in the determination of fair value.

(ii) Transfers between levels

There were no transfers between the levels in the fair value hierarchy during the reporting periods 30 June 2019 and 30 June 2018.

Note 15 Economic dependency

It has been determined that the FMIF be wound-up in an effort to realise all its assets and provide a return to existing unitholders following the repayment of all amounts due to the Responsible Entity. As the Scheme's single investment is in the FMIF, the Scheme is considered to be economically dependent on the FMIF and the Responsible Entity as it has continued to fund day to day expenses of the Scheme. Accordingly, the wind-up of the FMIF will ultimately result in the realisation of the Scheme's investment in the FMIF over time. Therefore it is the intention of the Responsible Entity to wind-up the Scheme once the wind-up of the FMIF has been completed.

Note 16 Custodian of the Scheme

The Scheme's custodian is The Trust Company Limited. The custodian holds title to the assets of the Scheme in its name on behalf of the Scheme.

The custodian is entitled to an annual administration fee of $10,000 (plus GST) (2018: $10,000 (plus GST)), which is paid by the Scheme.

The relationship between the custodian and Responsible Entity is set out in the Custodial Agreement.

Note 17 Contingent liabilities

Advisor commissions
Included in trade and other payables at the time of the Responsible Entity's appointment was a balance of $301,934 for accrued commissions owed to financial advisors who had previously introduced new investors to the Scheme. The Scheme has retained this accrual in the Statement of financial position, however the Responsible Entity has ceased to accrue any further commissions subsequent to its appointment until legal advice is obtained as to the extent, if any, of the Scheme's legal obligation to accrue such commissions.

Consequently, the Scheme may be liable for the payment of additional commissions to advisors pertaining to the period from the Responsible Entity's appointment to the date of this report, however the Responsible Entity is unable to quantify the value of any additional accrual required at this point in time.

Note 18 Events subsequent to reporting date

Supreme Court of Queensland hearing
On 2 and 3 May 2019, the Supreme Court of Queensland heard an originating application brought by Trilogy Funds Management Limited as Responsible Entity for the WFMIF and The Trust Company Ltd as custodian of the property of the WFMIF, seeking directions that they are justified in settling Supreme Court proceeding 13534 of 2016 (the Feeder Fund Proceedings) on terms set out in a Deed of Settlement and Release as varied by a Variation to the Deed of Settlement and Release; and that they are justified in entering into and performing the Deed of Settlement. The Application was heard by the Honourable Justice Mullins, who directed that Trilogy Funds Management Limited, as the Responsible Entity of the WFMIF, and The Trust Company Ltd as the custodian of the property of the WFMIF, were justified:

(i) in settling the Feeder Fund Proceedings on the terms set out in a Deed of Settlement and Release as varied by a Deed of Variation (Deed of Settlement); and
(ii) into entering and performing the Deed of Settlement.

In February 2019 David Whyte sought approval from the courts to make a distribution. This was heard by Justice Jackson who in October 2019, inter alia, approved the distribution.

A claim was also been brought by the Receiver against the former auditors, who in turn served third party notices upon the Feeder Funds, including the WFMIF. Following the hearing of the matter by Justice Jackson in October 2019 the action against the Feeder Funds will now be discontinued.

Note 18 Events subsequent to reporting date (continued)

Return of Capital
Following the successful outcome from the Feeder Fund Proceedings, the Receiver will commence returning capital to the unitholders of the FMIF, of which the Scheme will be entitled. The Scheme received $5,716,634 on 16 October 2019. The receiver has indicated that further distributions may be made, subject to the successful outcome of various proceedings. The Responsible Entity will deduct all outstanding liabilities including sufficient working capital to fund Scheme expenses for the next 12 months, from the first instalment prior returning capital

WFMIF’s investment in FMIF
BDO as Receiver of the FMIF published management accounts (unaudited) of the FMIF for the year ended 30 June 2019 in October 2019, whereby they determined the net asset value per unit to be $0.1260 based on 478,100,386 units. Following the courts determination in October 2019 to allow the Receiver to begin returning capital to investors of the FMIF, Justice Jackson further declared that the foreign currency investors in the FMIF were to be converted to Australian dollars on 8 August 2013, being the date of commencement to windup the FMIF. As a consequence, this decision resulted in additional units being issued in the FMIF, such that the total units on hand as at 30 June 2019 be restated to 492,125,624 units. In assessing the WFMIF’s fair value of its investment in the FMIF, the Responsible Entity applied the revised number of units in arriving at a revised net asset value per unit of the FMIF as at 30 June 2019 of $0.1221. It is important to note that the Directors of the Responsible Entity have not received nor reviewed any reports or work papers from the Receiver of the FMIF or the liquidator of LMIM in its determination of the Scheme's fair value of its investment in the FMIF as at 30 June 2019.

Other than the items noted above and as detailed in the Note 17 Contingent liabilities, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

LM Wholesale First Mortgage Income Fund
Directors' declaration

In the opinion of the Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of LM Wholesale First Mortgage Income Fund (Scheme):

(a) The financial statements and notes, as set out on pages 8 to 28 are 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 2019 and of its performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and

(c) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

Philip A Ryan	Rodger I Bacon
Executive Director	Executive Deputy Chairman
15 November 2019	15 November 2019
Brisbane	Brisbane

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LM WHOLESALE FIRST MORTGAGE INCOME FUND

Opinion

We have audited the accompanying financial report of LM Wholesale First Mortgage Income Fund ("the Scheme"), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of Trilogy Funds Management Limited, the Responsible Entity of the Scheme. The financial report has been prepared on a liquidation basis as the Scheme is not expected to continue in operation as a going concern.

In our opinion, the accompanying financial report of LM Wholesale First Mortgage Income Fund, which has been prepared on a liquidation basis, 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 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter - Material uncertainty regarding the carrying value and the recoverability of investment

Without qualifying our opinion, we draw attention to Note 2 (c) in the financial report which indicates that the Scheme's investment in LM First Mortgage Income Fund ("FMIF") may not be recoverable when required at the amount recorded in the financial report at 30 June 2019. As a result of this matter there is significant uncertainty whether the Scheme will recover the value of the investment at the stated carrying value; accordingly, we bring it to your attention.

Nexia Brisbane Audit Pty Ltd
Registered Audit Company 299289
Level 28, 10 Eagle Street
Brisbane QLD 4000
GPO Box 1189
Brisbane QLD 4001
p +61 7 3229 2022
f +61 7 3229 3277
e email@nexiabrisbane.com.au
w nexia.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LM WHOLESALE FIRST MORTGAGE INCOME FUND (Continued)

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. The financial report has been prepared on a liquidation basis as the Scheme is not expected to continue in operation as a going concern.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Nexia Australia

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LM WHOLESALE FIRST MORTGAGE INCOME FUND (Continued)

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Robertson.

AM Robertson
Director

Level 28, 10 Eagle Street, Brisbane
15 November 2019