

**Momentum Mortgages Limited
(Receivers and Managers Appointed)
(Subject to Deed of Company Arrangement)
ACN: 103 596 210 (“MML”)**

Update to debenture holders

We refer to our last circular to debenture holders dated 16 March 2009 and now provide you with a further update on the receivership of MML.

Proposed meeting of debenture holders

Initial proposal to restructure MML

As you may be aware, over the last several months, a number of debenture holders have provided the Receivers with various forms of requisition calling for a meeting of debenture holders for the purposes of (amongst other things), directing the Trustee to retire the Receivers and return MML to the control of its Directors. The requisitioners have been liaising with Mr Brett Gilbert (one of MML’s Directors) in this regard.

In order to implement this proposal, the Directors/requisitioners required the Trustee to amend various aspects of MML’s Trust Deed. Throughout the course of our correspondence with the Directors/requisitioners, we identified a number of significant issues with respect to both the requisition documents and the proposal contained within them.

A fundamental concern, was that the proposal sought to bind debenture holders that did not support the proposal (“non-consenting debenture holders”) via the meeting direction. We advised the Directors/requisitioners that under the Trust Deed, the terms of individual debentures could only be amended with the written consent of each debenture holder.

To assist the Directors/requisitioners with addressing this issue, we provided them with some alternatives:

- a) Proposing an acceptable ‘exit’ strategy for the non-consenting debenture holders that provides an overall better return than would otherwise be available from the receivership and liquidation of MML. This could involve, for example, an upfront payment to all non-consenting debenture holders, derived from an acceptable percentage of their investment balance; or
- b) Obtaining an advice from Senior Counsel, as to an alternative approach for implementing the proposal that will comply with the terms of the Trust Deed.

The requisitioners did not consider that a funded exit for non-consenting debenture holders was viable and did not obtain an advice from Senior Counsel. The requisitioners have not continued their work in respect of the initial proposal.

New proposal to restructure MML

Since the initial Deed of Company Arrangement (“DOCA”) submitted by the MML Directors in January 2009, there have been numerous changes to the form of their proposal. These proposals have ranged from directing the Trustee to amend the Trust Deed and terminate the existing DOCA to a further new proposal, which now requires an amendment to the existing DOCA structure for its implementation.

On 10 June 2009, Mr Gilbert (on behalf of the MML Directors) requested our views in relation to their latest proposal, which we note is in a form substantially different from earlier proposals. As stated above, this new proposal seeks to restructure the debentures via a DOCA rather than by amending the Trust Deed.

We have responded to the Directors requesting full particulars of their new proposal in order that we may report to the Trustee and debenture holders on its merits.

The Receivers and the Trustee are primarily concerned to ensure that all debenture holders are treated equally and are properly able to participate in this process on a fully informed basis, having regard to their respective duties to the debenture holders.

Next steps

Regardless of the above, the Receivers propose to convene a meeting of debenture holders in the event that 10% of debenture holders serve a requisition (in a form complying with the terms of the Trust Deed¹) for the meeting. We note that this meeting will be costly to convene however, it will be required in order to comply with MML's statutory obligations.

The next steps in progressing the meeting/requisition process are as follows:

- + The Directors/requisitioners are required to provide us with a summary of the terms of the new proposed DOCA, including:
 - full particulars as to how MML would be traded in the event that it was to be returned to the control of the Directors (e.g. whether a wind-down of the existing loan book or re-commencement of loan writing activity is to occur);
 - how the varied DOCA will provide a better return to debenture holders than the receivership and liquidation of the company;
 - the intended roles of the Directors, Deed Administrator, Receivers and Trustee during the operation of the DOCA;
 - how the DOCA will compensate debenture holders for the loss of potential recoveries relating to the transactions of concern (see below) that may only be recoverable by a Liquidator; and
 - how the DOCA will deal with those debenture holders that do not wish to accept its terms.
- + Following the requisitioners/Directors addressing the above issues, we will prepare a report to debenture holders which will provide:
 - our opinion on the proposal (including our assessment of any associated risks);
 - a comparison of the likely returns under the proposal as compared with the liquidation and receivership of the company; and
 - a notice convening the meeting of debenture holders.

We anticipate our report will be issued to debenture holders within 4 weeks of receipt of the necessary information from the requisitioners/Directors as detailed above.

Borrower update

Since our last update, we have attended to the following activities:

- + Ongoing liaison with valuers, quantity surveyors and project managers in relation to the underlying security properties and strategies for completing construction/realisation.

¹ We note that the requisitions received to date have not been in a form that complies with the terms of MML's Trust Deed.

- + Meetings and discussions with financiers and mortgage originators in relation to funding the costs to complete MML's construction projects at Newcastle, Newport and Toronto.
- + Following receipt of a letter of offer to fund the full costs to complete the Newcastle project, the Receivers' and financier's legal representatives have engaged in ongoing dialogue regarding the legal and security structures for the funding arrangement. While the complexity of the funding involved (i.e. lending to MML which is under external administration and holds security as mortgagee) has required a substantial negotiation period, I confirm that the parties have now reached general agreement on the proposed structure and the financier's lawyers are in advanced stages of preparing the facility documentation.
- + Commenced legal proceedings against the Port Douglas guarantors by filing and serving a Statement of Claim with the Supreme Court of New South Wales ("the Court"). A Court hearing date will be set shortly.
- + Engaged property consultants to assess 'value adding' strategies for the Port Douglas property.
- + Completed the sale of the Lemon Tree Passage property. There was no return to MML because there was a shortfall owing to the first mortgagee (as anticipated).
- + Appointed Ray White Commercial as selling agents and commenced the marketing of the Potts Point property.
- + Obtained amended architect and engineering plans for the Newport properties to address the borrower's breach of development approval conditions. Our project managers have now obtained building tenders to quantify the likely costs to address these issues. The proposed financier for the Newcastle project has also expressed an interest in funding the Newport projects, with final due diligence to be undertaken now that the building tenders have been received.
- + Continued to work closely with the Warwick/Rosenthal Heights borrower to ensure that the lots comprising this property are being realised in an orderly manner.

Further particulars of our dealings with each borrower and underlying security property are summarised in Annexure "A" attached.

Transactions of concern

As previously reported, during our investigations, it has come to our attention that two significant MML loans were assigned to two debenture holders in lieu of a cash repayment of their investment (totaling approximately \$4 million) shortly prior to our appointment.

These transactions appear to represent the preferential treatment of the relevant debenture holders at a time when MML was insolvent. As previously reported, in the event that MML is placed into liquidation, these transactions could be pursued by a Liquidator, with any proceeds of same distributed ratably.

As previously advised, in order to investigate this matter further, we sought the consent of the Australian Securities and Investments Commission ("ASIC") for the examination of representatives of the relevant debenture holders and certain Directors of MML involved in the transactions. ASIC have now granted their consent and we are preparing examination summonses to commence this process.

The evidence obtained from the public examinations will be taken into account in our assessment of future action to be taken against the relevant parties.

We will continue to keep debenture holders informed of developments in this matter.

I note that we are very conscious of focussing our efforts on the sourcing of finance and dealing with MML's security properties and loans to maximise the return available to debenture holders.

Should you wish to discuss any aspects of the above, please do not hesitate to contact the Receivers' Debenture holder liaison representative, Ms Summer Nguyen on (02) 9338 2607.

Dated 26 June 2009

A handwritten signature in black ink, appearing to read 'Joseph Hayes', with a stylized flourish at the end.

Joseph Hayes
Receiver and Manager

**Momentum Mortgages Limited
(Receivers and Managers Appointed)
(Administrator Appointed)
ACN: 103 596 210 ("MML")**

Summary of underlying property securities

Underlying property security	Description	Loan overdue	Construction status	Key action taken since last update
Newport, NSW 2106	+ 2 partially completed 'waterfront' houses	Yes	Incomplete	+ Meeting and liaising with Receivers' project managers to resolve non-compliance with Development Approval (DA) conditions + The Receivers have engaged an architect, who has now prepared amended architectural plans + Receivers' project managers have now obtained tenders for costs to complete, having regard to amended architectural plans + The Receivers are in ongoing negotiations with a financier to fund completion of construction (following receipt of building tenders)
Toronto, NSW 2283	+ 17 partially completed townhouses + Located on the western side of Lake Macquarie, approximately 20 km south west of Newcastle CBD	Yes	Incomplete	+ Default notices have not complied with and the Receivers intend to enter into possession of the property + The Receivers have met with the borrower, the builder and their legal representatives to establish whether a settlement proposal would be put forward by these parties + Due to the current state of the property, the Receivers are currently considering the most appropriate realisation strategy
Warwick/Rosenthal Heights, QLD 4370	+ 212 lot staged residential sub-division + 1 approved commercial sub-division + Located approximately 185 km south west of Brisbane	No	Subdivision	+ Further meetings/liaison with borrower + Continual monitoring of sales progress and settlement of both presales and new sales + 13 contracts have settled, resulting in a total net return to MML of \$971,000
Port Douglas, QLD 4877	+ 33 lot sub-division, with 1 restaurant/bar + Located adjacent to the Sheraton Mirage golf course	Yes	Subdivision	+ We have now commenced legal proceedings, with MML's joint first ranking mortgagee, against the guarantors by filing Statements of Claim against the guarantors with the Supreme Court of New South Wales + A court hearing date will be set shortly + We have been liaising closely with our joint first ranking mortgagee, Equity Trustee Limited, and our property consultants, to consider all possible strategies to improve realisations achieved from the property
Potts Point, NSW 2011	+ Completed ground floor commercial strata unit + Located in the centre of the Kings Cross district	Yes	Completed	+ Ray White have been engaged as our selling agent and have commenced the marketing campaign + The public auction has been set for 30 June 2009
Newcastle West, NSW 2302	+ 31 partially completed two bedroom apartments in 7 level block + One partially completed ground floor commercial unit (approximately 200 sq metres)	Yes	Incomplete	+ As previously advised, the Receivers have obtained an offer to fund the full costs to complete construction + The financier's legal representatives are currently drafting the loan facility documentation + The Receivers and Receivers' project managers have completed an initial review of the draft new building contract
Lemon Tree Passage, NSW 2319 (MML foreclosure)	+ 2 completed residential units + 1 completed ground floor commercial unit + MML has foreclosed on this property	n/a	Completed	+ In November 2007, MML borrowed \$770,000 from the Australia and New Zealand Banking Group Limited ("ANZ") secured against this property + Following a 5 week marketing campaign by Raine and Home, the property was sold by public auction for \$601,000 + Consequently, there was no return to MML due to the shortfall to ANZ (as first mortgagee)