

## TO THE INVESTOR AS ADDRESSED

29 July 2016

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

#### **1. Executive Summary**

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

I now provide my fourteenth update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 29 April 2016. This report should be read in conjunction with my previous reports, which are available on the website [www.lmfimf.com](http://www.lmfimf.com).

A summary of the key issues covered in this report is as follows:

- There is one property asset plus two residential units remaining to be sold that are estimated to realise approximately \$2.85M. Further details are provided at Section 3 below;
- Cash at bank as at 30 June 2016 was \$76.77 million;
- The estimated return to investors is currently 14 to 15 cents per unit as detailed at Section 8.1 below and before taking into account future costs and recoveries from legal proceedings on foot;
- I will not be in a position to make distributions to investors until the claims by Korda Mentha as trustee of the LM Managed Performance Fund (MPF Trustee) and other litigation matters involving a potential claim against the Fund have been resolved and the Receivers and Managers of the Fund (DB Receivers) appointed by the secured creditor have retired. Further details in relation to the status of the retirement of the DB Receivers are provided in Section 2.2 below;
- I have filed an application to strike out the claim (or parts thereof) by the MPF against LM Investment Management Limited (Receivers and Managers Appointed)(In Liquidation) (LMIM) in so far as it relates to the assets of the Fund, of which I am now also a defendant. The Court has reserved its decision. Further details are provided in Section 2.1 below;
- A mediation took place on 12 July 2016 in relation to a claim against the directors, LMIM and MPF for \$15.5M plus interest. The mediation has been adjourned to 3 August 2016 to enable the parties to finalise settlement negotiations. See Sections 2.3 and 4.2.1 below;

- A further amended statement of claim against the former auditors was filed and served on 14 April 2016. The former auditors have filed an application seeking to strike out parts of the claim. Further details are provided in Section 4.1 below;
  - The defendants of the Bellpac Liquidator's \$8M Bonds litigation have now made application for special leave to the High Court of Australia after their appeal to the Federal Court failed. Further details in relation to the \$8M Bonds are provided in Section 4.2.2 below;
  - Proceeds of \$2,408,903 plus costs and interest of \$417,393 have been recovered for the benefit of investors from a successful claim against a quantity surveyor. Further details are provided in Section 4.4.1 below;
  - The management accounts for the year ending 30 June 2016 are being prepared and will be available on the website [www.lmfimf.com](http://www.lmfimf.com) by 30 September 2016;
  - I am still awaiting the outcome of an application submitted to the Australian Securities and Investments Commission (ASIC) for relief from the financial reporting obligations in Part 2M.3 and Chapter 5C of the *Corporations Act 2001 (Cth)*. Further details are provided in Section 7 below;
  - The Court is still to hand down judgement in relation to the remuneration claimed by the liquidators of LMIM (FTI) against the assets of the Fund. Further details in relation to FTI's remuneration claim and indemnity claim are provided in Section 9 below.
- 2. Position of the Secured Creditor, the potential claim by KordaMentha, the trustee of the LM Managed Performance Fund ('MPF') and claims filed against the Fund**

### **2.1 Proceedings by the Trustee of the MPF against LMIM and the Fund**

Orders were made on 15 April 2016 requiring the Trustee to file 3rd further amended statements of claim (FASOC's), by 19 April 2016 which has been complied with.

On 26 April 2016, my solicitors filed and served against the MPF, strike-out applications in relation to a number of paragraphs within the claims. At the hearing on 31 May 2016, the decision was reserved and has not been handed down at this stage.

### **2.2 Position of the Secured Creditor**

As previously advised, the MPF Trustee has confirmed that it has concluded its investigations in relation to a number of matters and that it is unlikely that it will pursue many of the other possible claims against the Fund. In addition, the MPF Trustee has confirmed that it no longer considers it likely that its claims will exhaust the Fund's assets.

The matter precluding the retirement of the DB Receivers is the provision of a release by the MPF Trustee.

Further information requested by the MPF Trustee on litigation matters involving the FMIF has been provided to the MPF Trustee. I understand that the MPF Trustee is still considering this further information and its position in regard to the release requested by the DB receivers. I

continue to liaise with the DB receivers about their ongoing role and the possibility of their retirement.

### **2.3 Proceedings against the MPF, LMIM and the Directors of LMIM**

As advised in previous reports to investors, on 17 December 2014, I filed a statement of claim in the Supreme Court of Queensland, against a number of parties including the MPF Trustee, in respect of the loss suffered by the FMIF as a result of the amount paid to MPF in the Bellpac litigation matter. The claim is for \$15.5M plus interest.

Discovery in the proceedings has now been completed and a mediation took place on 12 July 2016. The mediation has been adjourned to 3 August 2016 to enable the parties to finalise settlement negotiations. See Section 4.2.1 below for further details.

## **3. Realisation of Assets**

A summary of the remaining real property assets is provided below:

- Two units in a strata titled unit resort situated in North Queensland are to be sold. Prior to the DB Receivers' appointment, title references for certain units in the complex were incorrectly disclosed in marketing material and, as a result, units were sold with incorrect titles. Documents have been lodged at land titles office for the title references to be amended. The units will be marketed for sale once the correct titles have been reissued.
- 11 out of 80 lots of a residential land subdivision in central Queensland remain to be sold. A boundary realignment is currently being undertaken on the remaining lots. A fresh marketing campaign will commence thereafter.

## **4. Other Potential Recoveries/Legal Actions**

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

### **4.1 Claim Against the Former Auditors**

A further amended statement of claim (FASOC) was filed by me in the Supreme Court of Queensland and served on the former auditors of the Fund on 14 April 2016.

Considerable further work has been undertaken in quantifying the loss suffered by the Fund as a result of the auditors failing to identify and report on the material deficiencies in the Fund's financial accounts and LMIM's compliance with the Compliance Plan. The calculation of the loss is almost finalised and as previously advised, will be in excess of \$100M. I remain hopeful of achieving a substantial recovery from this matter for the benefit of investors.

The auditors' solicitors lodged and served on me a strike-out application and supporting affidavit on 27 April 2016 in relation to the amended parts of the claim. The hearing of the strike out application was adjourned by consent to a date to be fixed by agreement or upon 7 days' notice by any party in the absence of agreement.

On 30 May 2016, I filed an application to place the proceedings on the Courts commercial list for expediency and to seek orders as to the proposed timetable for the conduct of the parties in the litigation. This application has also been adjourned to a date to be fixed however; I am required to file a 2<sup>nd</sup> FASOC by today in which I will address the issues raised by the defendants.

## **4.2 Bellpac Proceedings**

### **4.2.1 Proceedings against LMIM, MPF and Certain Directors**

As noted above, discovery in the proceedings has been completed and a mediation to settle the matter was held on 12 July 2016. The mediation has been adjourned to 3 August 2016 to enable the parties to finalise settlement negotiations.

I will provide an update in relation to the outcome of the settlement negotiations in my next report to investors.

### **4.2.2 Other Bellpac litigation**

#### **a. Wollongong Coal Ltd (WCL) - Convertible Bonds**

As advised in my last report, the defendants appealed the decision of the Court which acknowledged that Bellpac (under the control of a liquidator) is the true owner of the \$8 million convertible bonds. The appeal was won by the Liquidators. However, on 12 July 2016, the defendants made application for special leave to the High Court of Australia to appeal the decision of the Federal Court.

In January 2016, the Bellpac Liquidator applied for the conversion of the bonds to shares. Under the terms of the Bonds, WCL is required to issue the shares within 7 days after the end of January 2016 (Due Date) which it failed to do. Instead WCL issued part of the shares in early February 2016 and the balance of the shares after resolution of its members, in May 2016.

As WCL did not issue the shares as required under the terms of the Bonds, the Bellpac Liquidator brought proceedings against WCL seeking orders requiring WCL to perform its obligation to redeem the Bonds by

- Redeeming all of the Bonds which were not converted by the Due Date; and
- Pay to the Liquidator \$8M or such other amount being the nominal principal value of the unconverted Bonds (those issued in May 2016), plus interest.

WCL has now made application for security for costs against the Liquidator.

#### **b. Proceedings against Bellpac Receivers, LMIM, PTAL and others (“the Parties”)**

The ongoing proceedings by the third mortgagee against PTAL alleging a sale of the former Bellpac property at Bellambi NSW (sold to Gujarat NRE Minerals Limited in 2011) at undervalue, after a number of interlocutory applications including an application seeking to re-join LMIM, has been discontinued. Costs have been awarded against the plaintiffs and the previous security for costs of \$150,000 lodged by way of bank guarantee by the plaintiffs, will be held by the Court pending resolution of the approved or agreed quantum of PTAL’s costs. A cost order for \$11,000 was also awarded in favour of FMIF in respect of the plaintiffs discontinued application to re-join LMIM in the proceedings. The plaintiffs have failed to pay the \$11,000 and a statutory demand has been issued by me against the plaintiffs, which has now expired.

As advised in my last report, the discontinuance of the claim against LMIM and the Bellpac Receivers entitles the Fund and the Bellpac Receivers to seek the reimbursement of costs incurred in defending this matter. The costs of the Fund had been assessed and the Court confirmed the costs payable, however, the plaintiffs filed a notice of objection. At the conference at the Court, a settlement of the objections was agreed and the plaintiffs are now liable to pay FMIF \$55,000 by 31 August 2016. The Bellpac Receivers have had their costs assessed and an estimate confirmed by the Court. The plaintiffs have also objected to these costs and the Court has set a date in early September 2016 to hear the objection.

If the plaintiffs fail to pay the costs in favour of FMIF, I propose to file an application to wind up the plaintiffs.

### **4.3 Other Potential Claims against LMIM and related Parties**

#### **4.3.1 LM Administration Pty Ltd (In Liquidation)('LMA')/Director related claims**

As advised in my previous reports, my investigations into the following matters as they relate to the financial statements and compliance plan audits were included in the public examinations held in 2015:-

- Management Service Agreements with LMA;
- Changes to Constitution; and
- Fund Valuation Policy.

These matters and certain transactions involving these matters have been included in the claim against the auditors (see section 4.1).

#### **4.3.2 Distribution to Class B Unit Holders**

As advised in my previous reports, investigations have been undertaken via the public examinations conducted in 2015 and subsequent thereto in relation to redemptions and distributions paid to the Class B unit holders (the feeder funds) when the Fund had suspended redemptions and distributions to other classes of members. These matters have been included in my claim against the auditors (see section 4.1). Investigations have yet to be concluded in relation to the issue of the increase in the Class B members' interest in the Fund as a consequence of these transactions.

#### **4.3.3 External Valuations**

I continue to finalise my investigations into whether the valuations relied on in advancing loans was too high and if there was negligence by the valuer which contributed to the losses, however, I have not at this stage identified any claims that would be commercial to pursue.

In relation to my investigations to date, some of the issues identified which limits my ability to successfully pursue further action against valuers include:

- An assignment of the valuation was not obtained and, therefore, the Fund was unable to rely on the valuation
- There is no signed valuation on the Fund's loan files
- No funds were advanced in reliance on the valuation
- A valuation was not relied upon by LMIM in advancing a loan

- The valuer entity has been deregistered and it is not considered commercially worthwhile to pursue

#### **4.3.4 Claim by ASIC against the directors**

As advised in my previous reports, ASIC commenced civil penalty proceedings in the Federal Court of Australia in November 2014 against Peter Drake, Francene Mulder, Eghard Van Der Hoven, Simon Tickner and Lisa Darcy. ASIC alleges Mr Drake used his position to gain an advantage for himself and the former directors breached their duties for failing to act with the proper degree of care and diligence regarding transactions involving the MPF.

The matter is set down for trial for four weeks from 29 August 2016 to 23 September 2016 with the next directions hearing scheduled for 8 August 2016.

Further details can be found on the ASIC website [www.asic.gov.au](http://www.asic.gov.au) under media releases.

### **4.4 Other actions against Borrowers and guarantors**

#### **4.4.1 Claim against a quantity surveyor in the amount of \$2.4 million plus interest**

As advised in my previous report, judgement was handed down on 24 March 2016 in my favour where the Fund was awarded \$2.39M plus costs in relation to a claim against a quantity surveyor.

Proceeds of \$2,408,903.58 inclusive of interest plus costs and interest of \$417,393.89 were received by the Fund from the defendant on 24 May 2016.

#### **4.4.2 Various claims against guarantors**

I continue to review the remaining loan book to ascertain if there are any further claims against guarantors capable of commercial recoveries. Current ongoing matters that are being prosecuted will not result in material recoveries to investors although will more than cover the costs of the proceedings.

## **5. Western Union**

As advised in my previous reports, Western Union held funds on account of the FMIF at the date of FTI's appointment, which represented investor capital distributions returned due to incorrect account details held.

Western Union sought to set off funds held in the FMIF account against liabilities of other LM related entities, however a confidential commercial settlement has been negotiated. The amount of the claim is approximately \$93,000 (subject to exchange rate fluctuations). The terms of the draft settlement deed are still being finalised noting Western Union are seeking a broad warranty and a full release of all claims that the Fund may have which, based on the limited information I have to hand, I am not able to provide. I am hopeful that a commercial resolution can be finalised shortly.

## **6. Management Accounts**

The management accounts for the year ending 30 June 2016 are being prepared and will be available on the website [www.lmfimf.com](http://www.lmfimf.com) by 30 September 2016.

## 7. Application for Relief from Financial Reporting Obligations

As advised in my previous reports, an application has been submitted to the Australian Securities and Investments Commission (ASIC) for exemption, or alternatively, deferral of the financial reporting obligations imposed on the Fund by Part 2M.3 and section 601HG of the *Corporations Act 2001 (Cth)* for a period of 24 months from the due date for the next financial reporting obligation. The application has been made pursuant to the Orders made by Justice Jackson dated 17 December 2015.

The relief is sought on the basis that:

- (i) The Fund is in wind up mode;
- (ii) there would be unreasonable costs imposed on the members of the Fund if audited accounts were prepared;
- (iii) there are no members or third parties that are reliant on audited accounts or would be prejudiced by not receiving audited financial reports;
- (iv) financial information and information on the status of the winding up of the Fund has been and will continue to be disclosed to members in a timely manner; and
- (v) the interests of members will be adequately protected by the requirement under the Fund's Constitution for the final accounts to be audited upon completion of the winding up.

ASIC have advised that a decision in relation to my application will be provided shortly.

## 8. Investor Information

### 8.1 Estimated Return to Investors

Based on the professional valuations for the properties charged to the Fund, I provide an estimated return to Investors of between 14 cents and 15 cents per unit as at 30 June 2016, calculated as follows:

	Low \$	High \$
Cash at Bank	76,770,017	76,770,017
Estimated selling prices of properties to be sold	2,850,000	3,050,000
<b>Estimated Assets Position</b>	<b>79,620,017</b>	<b>79,820,017</b>
Selling costs (estimated 2.5% of sale price)	(71,250)	(76,250)
Other unsecured creditors	(6,349,448)	(1,620,383)

FTI Fees & legal expenses advised (subject to approval)- refer to Section 9.1 for further details - maximum amount shown	(4,211,638)	(4,211,638)
Receivers and Managers' Fees (DB Receivers)	(111,648)	(111,648)
Receivers and Managers' Legal fees (DB Receivers)	(36,576)	(36,576)
Receiver's fees & outlays (BDO) (including controllerships)	(1,862,683)	(1,862,683)
Receiver's legal fees (BDO)	(195,185)	(195,185)
<b>Total Liabilities</b>	<b>(12,838,428)</b>	<b>(8,114,363)</b>
<b>Estimated net amount available to investors as at 30 June 2016</b>	<b>66,781,589</b>	<b>71,705,654</b>
Total investor units	478,274,000	478,274,000
<b>Estimated return in the dollar</b>	<b>14 cents</b>	<b>15 cents</b>

In my last report to investors I calculated that the estimated return to investors would be between 13.6 and 14.6 cents in the dollar. The estimated return as at 30 June 2016 has been revised upwards slightly primarily due to the recoveries from the quantity surveyor outlined earlier in this report. Please note that the estimate and prior estimates do not take into account future operating costs and future Receiver's fees or any legal recoveries against borrowers, valuers or other third parties.

In calculating the estimated return to investors, I have also not provided any allowance for the claim filed by the MPF Trustee as the prospects of a successful claim against the Fund is unknown, however, as detailed earlier in this report, I am hopeful that all claims relating to the MPF matters will be settled at the adjourned mediation held on 3 August 2016.

As advised in my previous reports, I have identified a discrepancy between the units recorded in the investor register and the units recorded in the audited and management accounts for the 2012 financial year. Investigations indicate that the discrepancy relates to the Fund's migration to a new investor management database in 2010 whereby the units of investors who subscribed in a foreign currency were incorrectly recorded in the foreign currency equivalent amount, and not in the Australian dollar equivalent amount in accordance with the Fund's Product Disclosure Statement and Constitution. I am taking steps to rectify this issue with an IT consultant and a further update will be provided in due course.

## 8.2 Updated Estimated Unit Price

The unit price will be updated twice a year as at 30 June and 31 December. In this regard, I provide below an updated unit price as at 30 June 2016 of 14 cents, which is based on the mid-point of the high and low estimated selling prices of the secured assets as at 30 June 2016.



	\$000's
Total Value of Fund Assets as at 30 June 2016 (net of land tax and rates)	79,720
Less Creditors and Other Payables	(10,476)
<b>Total Net Value of Fund Assets</b>	<b>69,244</b>
<b>Total Number of Units</b>	<b>478,274</b>
<b>Unit Price</b>	<b>14 cents</b>

I *attach* a copy of a letter confirming the unit price as at 30 June 2016, which may be forwarded to Centrelink to assist with the review of investors' pensions.

Please note that the estimated unit price as at 30 June 2016 has been revised downwards by 1 cent from the 31 December 2015 estimate. This is because this estimate and prior estimates do not take into account future operating costs and future Receiver's fees as noted above. However, the estimate also excludes any legal recoveries against borrowers, valuers or other third parties, which would improve the overall return to investors.

### 8.3 Distributions to Investors

A resolution of all MPF matters that I have outlined earlier in this report and, which I hope will be achieved at the adjourned mediation on 3 August 2016, will result in the secured creditor releasing its charge over the Fund and the retirement of the DB Receivers.

Once the DB Receivers have retired and funds released to me, I will be required to retain certain funds to meet the liabilities of the Fund, including contingent claims that may arise from the Bellpac litigation.

I am also required to seek the directions of the Court before proceeding with the next distribution.

I will update investors as to the expected timing of a distribution as these matters become clearer; however, I am hopeful to be in a position to commence distributions towards the end of 2016.

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

### 8.4 Ongoing Reporting to Investors

Reports will be distributed to investors in accordance with the preferred method of correspondence recorded for each investor in the Fund's database. In order to assist in reducing distribution costs, it would be appreciated if investors could nominate an email address as their preferred method to receive correspondence. Investors may update their details as outlined in Section 8.5 below. For

those investors that do not have an email address, correspondence will continue to be sent to you via post.

My next report to investors will be issued by 31 October 2016.

## 8.5 Investors Queries

For any changes to investors details, please review the Useful Forms/Procedures tab on the website [www.lmfmf.com](http://www.lmfmf.com) which includes information regarding the following procedures:

- Change of Contact Address/Bank Account Details
- Change of Contact Address/Bank Accounts Details of a Deceased Estate
- Change of Trustee of Self-Managed Super Fund
- Transfer of Unit Holding from a Super Fund/ Trustee Company to Personal Name(s)
- Transfer of Unit Holding from a Deceased Estate to a Sole Survivor
- Transfer from a Deceased Estate to a Beneficiary of an Estate

It is a requirement that advisors or other third parties acting on behalf of Unit Holders are doing so pursuant to a relevant Authority/Power of Attorney. Please ensure that a relevant Authority/Power of Attorney accompanies the abovementioned documents as necessary (if an Authority/Power of Attorney has not previously been provided).

It is preferable that all communications are sent via email to [enquiries@lmfmif.com](mailto:enquiries@lmfmif.com) with original documents to be mailed as required to:

BDO  
GPO Box 457  
Brisbane QLD 4001  
Phone: +61 7 3237 5999  
Fax: +61 7 3221 9227

## 9 LM Investment Management Ltd (“LMIM”)

### 9.1 Liquidators of LMIM’s (FTI Consulting) application for remuneration approval

As advised in my 13<sup>th</sup> report to investors, FTI filed a Further Amended Originating Application on 16 December 2015 for the determination of their remuneration claimed as liquidators of LMIM in the amount of \$3,098,251.83 for the period from the date of their appointment to 30 September 2015 from assets of the Fund.

At this stage, judgement is yet to be handed down by the Court.

I will provide a further update on the outcome of the Court’s decision in my next report to investors. Please note that all material filed with the Court in relation to FTI’s remuneration claim is available on the websites [www.lmfmf.com](http://www.lmfmf.com) and [www.lminvestmentadministration.com](http://www.lminvestmentadministration.com). A copy of the judgement and court order will be uploaded to the websites when handed down.

FTI have not submitted further details of their outstanding remuneration and costs up to 30 June 2016 and have advised that they are awaiting the outcome of the judgement noted above.

## **9.2 The Liquidators of LMIM's (FTI) indemnity claim against the Fund**

As advised in my 13<sup>th</sup> report to investors, FTI has submitted two indemnity claims for \$241,453.54 and \$375,499.78 against the assets of the Fund.

The first claim of \$241,453.54 relates to legal costs incurred in relation to the appeal of the decision appointing me as receiver to wind up the Fund. This claim has been rejected in full pending the judgement to be handed down in relation to FTI's remuneration application.

In respect of the second claim, I accepted \$84,954.41 (\$93,449.85 less GST of \$8,495.44) (Accepted Claim), rejected \$169,243.26 and deferred \$5,473.59 pending the judgement to be handed down in relation to FTI's remuneration application. The balance of FTI's claim has been withdrawn.

FTI immediately sought payment of the Accepted Claim of \$84,954.41, however, due to questions about the propriety and reasonableness of a number of payments which LMIM caused the Fund to make to LMA for 'loan management fees' during the period March to July 2013 (which have been brought to the attention of the Court in relation to FTI's remuneration application), I advised that payment of the accepted claim would not be made until judgement was handed down. There is also an amount of \$779,266 which LMIM has owed the Fund since 2014 relating to the reimbursement of the operating costs of LMA paid by the Fund.

As a result of the non-payment of the Accepted Claim, FTI made an application to Court. To avoid the unnecessary costs of arguing over a relatively small sum in comparison to the overall remuneration claimed by FTI, I attended to payment of \$84,954.41.

FTI have also made an application to Court objecting to my decision to reject their indemnity claim noted above (Indemnity Application). It has been proposed that the Indemnity Application be deferred until judgement is handed down in relation to FTI's remuneration application.

## **10. Receiver's Remuneration and Expenses**

There have been five applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2016.

The application for the approval of my remuneration for the period 1 November 2015 to 30 April 2016 was heard on 28 June 2016. The Court ordered that my remuneration for this period be fixed in the amount of \$1,405,155.40 (inclusive of GST) in relation to my role as the person responsible for ensuring the FMIF is wound up in accordance with its constitution and \$36,510.65 in relation to the controllerships for the retirement village assets.

A copy of all documentation in relation to my applications can be found on the website [www.lmfmfif.com](http://www.lmfmfif.com).

In addition to the remuneration previously approved by the Court, I calculate that, on a time basis, I have incurred further remuneration of \$366,988 plus outlays of \$6,726 plus GST from 1 May 2016 to 30

June 2016 plus work undertaken in respect of the controllerships for the retirement village assets of \$6,854 plus GST as detailed in the table below and attached summaries.

	Remuneration (GST exclusive) \$	Outlays (GST exclusive) \$
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	366,988	6,726
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	528	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	1,920	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	2,475	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	1,511	-
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	152	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed) (Controllers Appointed)	268	-
<b>Total</b>	<b>373,842</b>	<b>6,726</b>

The key matters addressed during the period, were:

- Work undertaken in relation to the litigation matters detailed at Sections 2 and 4 of this report which include, among other things:
  - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits following public examinations held, including quantifying the loss suffered by the Fund;
  - Recovery of the judgement debt awarded in my favour against a quantity surveyor;
  - Providing assistance to the Liquidator of Bellpac regarding the \$8M bond claim and progressing these matters;
  - Progressing the claim against the MPF and others;
  - Attending to discovery in the MPF proceedings;
  - Preparation for and attending to mediation in the MPF proceedings;

- Review of potential claims against former valuers of property securities for negligence and breach of contract;
- Progressing claims against guarantors.
- Liaising with various parties in relation to the DB Receiver's retirement;
- Finalising settlement of Western Union's set off claim;
- Dealing with FTI in relation to remuneration sought against the FMIF in their capacity as liquidators of the responsible entity, including meetings and correspondence with our solicitors and counsel, correspondence with FTI's solicitors;
- Dealing with FTI in relation to their claims for indemnity against the assets of the Fund for expenses and costs incurred in their capacity as liquidators of the responsible entity;
- Maintaining the management accounts of the Fund;
- Undertaking the investor management function for approximately 4,500 investors including answering queries on the winding up of the Fund and maintaining the investment database, including any change in details or transfer of units;
- Investigations into the migration of the Composer investor management database to the AX investor management database and liaising with an IT consultant in relation to resolving issues with investors that acquired units in foreign currencies;
- Preparing of affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 November 2015 to 30 April 2016;
- Finalising outstanding trading matters from the sale of five retirement villages, including tax compliance issues;
- Preparation of unit price calculation as at 30 June 2016.

The fees for the three months from April to June 2016 average approximately \$170,000 per month compared to the three months from January to March 2016 of approximately \$267,000 per month.

I expect my fees incurred in the coming periods will continue to reduce as the various outstanding matters are resolved.

I anticipate that my next application to Court for the approval of my remuneration will be made in November/December 2016 covering the period 1 May 2016 to 31 October 2016. A copy of my application in this respect will be posted to the website [www.lmfimif.com](http://www.lmfimif.com) and investors will be notified when this application has been lodged.

## 11. Queries

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

BDO  
GPO Box 457  
Brisbane QLD 4001  
Phone: +61 7 3237 5999  
Fax: +61 7 3221 9227  
Email: [enquiries@lmfmif.com](mailto:enquiries@lmfmif.com)

Yours faithfully

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the left.

David Whyte  
Receiver



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016  
LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED)  
(RECEIVER APPOINTED)**

Employee	Position	Rate	Totals		Task Area											
					Assets		Creditors		Trade On		Investigations		Administration			
			hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$		
Clark Jarrold	Partner	560	51.1	28,616.00	51.1	28,616.00										
David Whyte	Partner	560	76.9	43,064.00	11.3	6,328.00	17.1	9,576.00	16.4	9,184.00	3.0	1,680.00	29.1	16,296.00		
Eric Leeuwendal	Executive Director	495	265.9	131,620.50	108.0	53,460.00	70.8	35,046.00	5.0	2,475.00	50.2	24,849.00	31.9	15,790.50		
Craig Jenkins	Partner	490	6.9	3,381.00	6.9	3,381.00										
John Somerville	Senior Manager	440	73.6	32,384.00	2.0	880.00	19.8	8,712.00	18.6	8,184.00			33.2	14,608.00		
Julie Pagcu	Senior Manager	375	20.8	7,800.00	20.8	7,800.00										
Murray Daniel	Supervisor	360	0.6	216.00			0.6	216.00								
Nicola Kennedy	Senior Accountant II	280	113.5	31,780.00			34.0	9,520.00	69.6	19,488.00	0.1	28.00	9.8	2,744.00		
Aubrey Meek	Senior Accountant II	225	50.1	11,272.50			47.0	10,575.00					3.1	697.50		
Dermot O'Brien	Accountant I	195	134.4	26,208.00	0.6	117.00	78.6	15,327.00	20.9	4,075.50	4.7	916.50	29.6	5,772.00		
Sarah Cunningham	Team Assistant	195	4.2	819.00					0.2	39.00			4.0	780.00		
Aubrey Meek	Senior Accountant II	190	44.9	8,531.00			41.2	7,828.00					3.7	703.00		
Dale Ludwig	Para-Professional	185	0.4	74.00	0.4	74.00										
Ryan Whyte	Undergraduate	160	46.6	7,456.00			35.5	5,680.00	5.0	800.00			6.1	976.00		
Jinyang Li	Accountant II	155	10.4	1,612.00			10.4	1,612.00								
Brooke Streidl	Team Assistant	130	9.8	1,274.00	9.8	1,274.00										
Moira Hattingh	Team Assistant	80	11.0	880.00									11.0	880.00		
<b>TOTALS</b>			<b>921.1</b>	<b>336,988.00</b>	<b>210.9</b>	<b>101,930.00</b>	<b>355.0</b>	<b>104,092.00</b>	<b>135.7</b>	<b>44,245.50</b>	<b>58.0</b>	<b>27,473.50</b>	<b>161.5</b>	<b>59,247.00</b>		
			<b>GST</b>	<b>33,698.80</b>												
			<b>TOTAL INC GST</b>	<b>370,686.80</b>												
<b>AVERAGE HOURLY RATE</b>			<b>366</b>		<b>483</b>		<b>293</b>		<b>326</b>		<b>474</b>		<b>367</b>			

**Note:** All amounts exclude GST unless otherwise noted



**Disbursements for the period 1 May 2016 to 30 June 2016**  
**LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND**  
**MANAGERS APPOINTED)**

Expense Type	Amount (\$ ex GST)
General	1,330.00
Photocopy	10.50
Printing	109.50
Postage	5,231.15
Search Fee	44.65





**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016**  
**PINEVALE VILLAS MORAYFIELD PTY LTD**

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Trade On		Administration	
					hrs	\$	hrs	\$
David Whyte	Partner	560	0.1	56.00	0.1	56.00		
John Somerville	Senior Manager	440	1.1	484.00	0.3	132.00	0.8	352.00
Jacqueline Silva	Manager	330	0.4	132.00	0.4	132.00		
Nicola Kennedy	Senior Accountant II	280	2.8	784.00	2.7	756.00	0.1	28.00
Damien Hicks	Senior Accountant II	220	2.0	440.00	2.0	440.00		
Maira Hattingh	Team Assistant	80	0.3	24.00			0.3	24.00
<b>TOTALS</b>			<b>6.7</b>	<b>1,920.00</b>	<b>5.5</b>	<b>1,516.00</b>	<b>1.2</b>	<b>404.00</b>
			GST	192.00				
			TOTAL INC GST	2,112.00				
			AVERAGE HOURLY RATE	287	276	337		

**Note:** All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016

OVST PTY LTD

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
John Somerville	Senior Manager	440	0.7	308.00			0.7	308.00
Nicola Kennedy	Senior Accountant II	280	0.7	196.00	0.7	196.00		
Moir Hattingh	Team Assistant	80	0.3	24.00			0.3	24.00
<b>TOTALS</b>			<b>1.7</b>	<b>528.00</b>	<b>0.7</b>	<b>196.00</b>	<b>1.0</b>	<b>332.00</b>
GST				52.80				
TOTAL INC GST				580.80				
AVERAGE HOURLY RATE				311	280		332	

**Note:** All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016

REDLAND BAY LEISURE LIFE PTY LTD

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Trade On		Administration	
					hrs	\$	hrs	\$
John Somerville	Senior Manager	440	0.8	352.00	0.1	44.00	0.7	308.00
Nicola Kennedy	Senior Accountant II	280	2.1	588.00	2.0	560.00	0.1	28.00
Damien Hicks	Senior Accountant II	220	2.4	528.00			2.4	528.00
Sarah Cunningham	Team Assistant	195	0.1	19.50			0.1	19.50
Maira Hattingh	Team Assistant	80	0.3	24.00			0.3	24.00
<b>TOTALS</b>			<b>5.7</b>	<b>1,511.50</b>	<b>2.1</b>	<b>604.00</b>	<b>3.6</b>	<b>907.50</b>
GST				151.15				
TOTAL INC GST				1,662.65				
AVERAGE HOURLY RATE				265	288		252	

**Note:** All amounts exclude GST unless otherwise noted



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016**  
**REDLAND BAY LEISURE LIFE DEVELOPMENT PTY LTD**

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Trade On		Administration	
					hrs	\$	hrs	\$
John Somerville	Senior Manager	440	0.2	88.00			0.2	88.00
Nicola Kennedy	Senior Accountant II	280	0.2	56.00	0.1	28.00	0.1	28.00
Moira Hattingh	Team Assistant	80	0.1	8.00			0.1	8.00
<b>TOTALS</b>			<b>0.5</b>	<b>152.00</b>	<b>0.1</b>	<b>28.00</b>	<b>0.4</b>	<b>124.00</b>
				GST	15.20			
				TOTAL INC GST	167.20			
				AVERAGE HOURLY RATE	304	280		310

**Note:** All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016

BRIDGEWATER LAKE ESTATE PTY LTD

Employee	Position	Rate	Totals		Task Area						
			hrs	\$	Assets		Trade On		Administration		
					hrs	\$	hrs	\$	hrs	\$	
David Whyte	Partner	560	0.4	224.00	0.3	168.00	0.1	56.00			
John Somerville	Senior Manager	440	1.5	660.00	0.5	220.00	0.1	44.00	0.9	396.00	
Nicola Kennedy	Senior Accountant II	280	5.5	1,540.00	3.5	980.00	1.9	532.00	0.1	28.00	
Sarah Cunningham	Team Assistant	195	0.1	19.50					0.1	19.50	
Moir Hattingh	Team Assistant	80	0.4	32.00					0.4	32.00	
TOTALS			7.9	2,475.50	4.3	1,368.00	2.1	632.00	1.5	475.50	
			GST	247.55							
			TOTAL INC GST	2,723.05							
			AVERAGE HOURLY RATE	313		318		301		317	

**Note:** All amounts exclude GST unless otherwise noted



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2016 to 30 June 2016**  
**CAMEO ESTATES LIFESTYLE VILLAGES (LAUNCESTON) PTY LTD**

Employee	Position	Rate	Totals		Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
			John Somerville	Senior Manager	440	0.3	132.00	
Nicola Kennedy	Senior Accountant II	280	0.4	112.00	0.4	112.00		
Moira Hattingh	Team Assistant	80	0.3	24.00			0.3	24.00
<b>TOTALS</b>			<b>1.0</b>	<b>268.00</b>	<b>0.4</b>	<b>112.00</b>	<b>0.6</b>	<b>156.00</b>
GST				26.80				
TOTAL INC GST				294.80				
AVERAGE HOURLY RATE				268	280	260		

**Note:** All amounts exclude GST unless otherwise noted

29 July 2016

**TO WHOM IT MAY CONCERN**

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

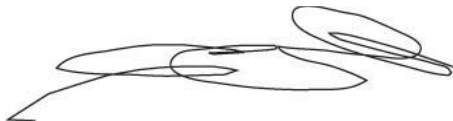
I refer to my appointment as the Receiver of the Fund's assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution by Order of the Supreme Court of Queensland on 8 August 2013.

I provide an update on the estimated unit price of the fund as at 30 June 2016, calculated as follows:

	<b>\$000's</b>
Total Value of Fund Assets as at 30 June 2016 (net of land tax and rates)	79,720
Less Creditors and Other Payables	(10,476)
<b>Total Net Value of Fund Assets</b>	<b>69,244</b>
<b>Total Number of Units</b>	<b>478,274</b>
<b>Unit Price</b>	<b>14 cents</b>

Should you have any queries in respect of the above, please contact Dermot O'Brien of my office on (07) 3237 5864.

Yours faithfully,



David Whyte  
Receiver



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