

TO THE INVESTOR AS ADDRESSED

29 September 2017

**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 now provide my 19th update report to investors. This report is prepared in accordance with the Exemption granted by the Australian Securities and Investments Commission (ASIC Exemption) in relation to financial reporting obligations of the Fund. In this regard, the ASIC Exemption requires a report to be made available to investors for each period of six months starting on 1 January 2016, which includes the following information:

- (i) Information about the progress and status of the winding up of the Fund, including details of:
 - A. The actions taken during the period;
 - B. The actions required to complete the winding up;
 - C. The actions proposed to be taken in the next 12 months; and
 - D. The expected time to complete the winding up.
- (ii) The financial position of the Fund as at the last day of the relevant period (based on available information);
- (iii) Financial information about receipts (and payments) of the Fund during the period; and
- (iv) The following information at the end of the period:
 - A. The value of the Fund's property; and
 - B. The potential return to investors.

This report covers, inter alia, the period 1 January 2017 to 30 June 2017 (the Period).

1. Progress and Status of the Winding Up

1.1 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

1.1.1 Proceedings by the Trustee of the MPF against LM Investment Management Limited (LMIM) and the Fund

1.1.1.1 Assigned Loans Claims

I refer to my previous updates to investors in relation to these proceedings, in which the Trustee of the MPF is the plaintiff, and the defendants are LMIM, and myself as receiver of the property of the FMIF.

The relief claimed by the Trustee of the MPF in these proceedings includes equitable compensation against LMIM and claims against assets of the FMIF in the total sum of about \$24.1 million plus interest.

At the review hearing on 16 December 2016, the proceedings were adjourned to a date to be fixed as the parties wished to continue negotiations to settle the litigation in conjunction with the proceedings in both sections 1.1.1.2 and 1.1.3 below.

There have been no further steps taken in the proceedings since my previous update to investors.

1.1.1.2 Australian International Investment Services Pty Ltd (AIIS) Loan Claim

I refer to my previous updates to investors in relation to this proceeding in which the Trustee of the MPF is the plaintiff, and LMIM is the defendant.

The MPF Trustee has claimed approximately \$16.82 million as equitable compensation against LMIM and relief against the assets of the FMIF for approximately \$3.9 million (this may be increased to \$4.1 million) being alleged interest paid by the MPF to the FMIF in respect of the loan made by the FMIF to AIIS in 2005.

There have been no further steps taken in the proceedings since my previous update to investors. Negotiations to settle these proceedings in conjunction with the proceedings above and those detailed at section 1.1.3 below are continuing.

1.1.2 Position of the Secured Creditor

I refer to my comments in my previous updates to investors. The DB Receivers have advised the matter precluding their retirement is that prior to retiring, they request the provision of a release by the MPF Trustee, with respect to various claims that the MPF Trustee has made or foreshadowed.

I continue to liaise with the DB Receivers about their ongoing role and the possibility of their retirement. In the event the proceedings mentioned at Sections 1.1.1 and 1.1.3 are settled and a release is provided by the MPF, McGrathNicol will retire as Receivers and Managers.

1.1.3 Proceedings against the MPF, LMIM and the Directors of LMIM

I refer to my previous updates to investors in relation to a statement of claim I caused to be filed in the Supreme Court of Queensland, against a number of parties, including the MPF Trustee, in respect of loss allegedly suffered by the FMIF as a result of an amount paid to MPF in the Bellpac litigation matter. The claim is for \$15.5M plus interest.

Since the mediation in mid-2016, the parties have continued to discuss a potential settlement of the litigation, including discussions to resolve those matters referred to at section 1.1.1 above. Notwithstanding this, I have continued to take steps to progress the proceedings. Namely, I caused to be filed an application to the court seeking orders to disclose for the purposes of these proceedings relevant transcripts obtained during the public examinations and documents produced for the public examinations by the former auditors. I recently obtained these orders and have now disclosed those documents in the proceedings.

All Director defendants, except for Peter Drake, have now filed amended defences. A Reply to the amended defences of Francene Maree Mulder and Eghard Van der Hoven, and a Request for Further and Better Particulars have recently been filed by me seeking further particulars of various parts of their amended defences. I am awaiting the filing of Mr Drake's amended defence and subject to seeking further particulars of that amended defence, I will file a Reply to that amended defence. I otherwise intend to take steps to progress the proceedings to trial (subject to the outcome of the settlement negotiations referred to above).

The proceedings are ongoing and an update will be provided to investors in relation to this matter in my next report.

1.2 Realisation of Assets

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

- Two units in a strata titled unit resort situated in North Queensland were sold at auction on 24 June 2017 for a total of \$712,500 and settlement occurred on 8 August 2017;
- 61 hectares of englobo land with various approvals for up to 257 residential lots plus retail space and a childcare centre remain to be sold within a residential land subdivision in Central Queensland. Various applications have been prepared for easements relating to the properties and have been submitted to council for approval. A marketing campaign will commence shortly and an auction is expected to be held before the end of the calendar year.

1.3 Legal Actions/Potential Recoveries

1.3.1 Claim against the former auditors

I refer to my previous updates to investors and briefly summarise the background as follows:

- A public examination (PE) of the former auditors and certain directors and former directors (Directors) of LM Investment Management Limited (In Liquidation) was conducted over a period of 9 days in June 2015 and a further 9 days in October 2015;
- Following the PEs, a further amended statement of claim was filed by me in the Supreme Court of Queensland and served on the former auditors of the Fund on 14 April 2016;
- The former auditors' solicitors lodged and served on me a strike-out application and supporting affidavit on 27 April 2016 seeking orders to strike-out certain parts of the statement of claim;
- At the hearing of the former auditors' strike out application and my commercial list application on 15 December 2016, the Court granted my application and placed the proceedings on the commercial list and reserved its decision on the auditor's strike out application;

- The reserved decision from the hearing of the strike out application was handed down on 8 May 2017. In that decision, the Court declined to strike out all of the parts of the claim that the former auditors sought to strike out. However, the Court did make orders striking out certain causes of action and orders were made that the statement of claim be amended to delete those causes of action;
- In accordance with the Court's judgment, the parties were required to agree the form of orders including a timetable for the filing of a further amended statement of claim and the costs of the former auditors' strike-out application.

I summarise developments since my last update to investors as follows:

- In accordance with the Court's judgment, the parties have been conferring to agree the form of orders which will include a timetable for the filing of a further amended statement of claim and the costs of the former auditors' strike-out application;
- I have also been progressing the calculation of the estimated loss. This should be finalised by the end of this month and is required as part of the amendments to the claim. A significant amount of work has been undertaken in this regard, including estimating the additional costs and expenses incurred by the Fund as a consequence of the alleged delay in winding up the Fund.

The amended claim will be filed and served on the former auditors in early November 2017. A review hearing is expected to be held shortly thereafter to agree orders for the next steps in the proceedings, including the filing by the auditors of a defence to the amended claim.

The loss as estimated is in excess of \$100M.

The proceedings are ongoing and an update will be provided to investors in relation to this matter in my next report.

1.3.2 Bellpac Proceedings

In addition to the claim filed and served against the MPF in relation to a loss suffered by the Fund from litigation pertaining to the Bellpac loan noted at 1.1.3 above, there are two further matters relating to Bellpac, as detailed below.

a. Wollongong Coal Ltd (WCL) - Convertible Bonds

I refer to my previous updates to investors and provide a brief summary as follows:

- The liquidator of Bellpac has received the settlement amount of \$2 million from WCL in relation to the claim for redemption of the \$2 million Bonds held in WCL;
- In January 2016, the Bellpac Liquidator applied for the conversion of the \$8 million Bonds to shares. As WCL did not issue all of 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 converted to shares outside of the required time;
- The Bellpac liquidator and WCL have entered into a binding heads of agreement (HOA) which relates to the settlement of the litigation commenced against WCL. The terms of the HOA include that WCL will pay to Bellpac a settlement sum of \$6.3 million in return for certain releases and Bellpac returning or cancelling the WCL shares issued to Bellpac;

- A final condition precedent to the settlement with WCL has been delayed as the Court dismissed WCL's application for approval of the acquisition and/or cancellation of the WCL shares held by Bellpac and WCL is now required to seek shareholder approval however, certain documents needed to support the proposal to shareholders has taken longer than expected;
- The Trustees of the MPF (MPF) have demanded from the Liquidator circa \$680K plus interest out of the proceeds of the Bonds litigation for repayment of funding the MPF allegedly made for the Bonds litigation from late 2010 to early 2013. The MPF has also reserved its rights in relation to claiming 35% of the funds realised from the successful Bonds proceedings.

Developments since my last update to investors are as follows:

- On 19 July 2017 WCL advised the Bellpac liquidator that all of the documentation necessary to finalise the documents for the shareholders meeting was ready except for the valuation of WCL's property holdings. WCL advised that the valuer engaged in April 2017 suddenly declined to accept the engagement as they advised that they should not have accepted the engagement as it was outside the scope of their expertise. As it was necessary for WCL to engage another valuer, WCL sought a further extension to the sunset date of the HOA to 2 October 2017. This was recommended and agreed to by Bellpac's liquidator. Bellpac's liquidator has advised they will seek interest as a condition of any further extensions sought by WCL;
- In relation to the MPF claim for reimbursement for funding as referred to above, there has been correspondence between me, the liquidator and the MPF as to the parties' respective positions on the matter. To date, no resolution has been agreed in respect of the claim. To the extent possible, I will endeavour to resolve the claim as part of the settlement negotiations referred to in 1.1.3 above.

I will provide investors with an update in relation to the claim by MPF and the settlement of the \$8M bonds litigation with WCL in my next report.

b. Proceedings against Bellpac Receivers, LMIM, PTAL and others ('the Parties')

I refer to my previous updates to investors and summarise the background as follows:

- The proceedings against the Bellpac Receivers and LMIM had been discontinued in 2015. The remaining 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 was discontinued in mid-2016. All defendants were awarded costs against the plaintiffs when the proceedings were discontinued;
- On 6 November 2016, I caused to be filed winding up applications against the plaintiffs based on the unpaid costs awarded in favour of LMIM as RE of the FMIF; and
- On 7 November 2016 David Clout and Patricia Talty of Clout and Associates were appointed Liquidators over the plaintiff companies, Austcorp No. 20 Pty Ltd and Compromise Creditors Management Pty Ltd (the Austcorp companies).

Developments since my last update to investors are as follows:

- The Liquidators have agreed to assign the debt and securities of the Austcorp companies held over Bellpac to the Fund for consideration of \$14,000. A result of that is the cause of action against the Parties which was the basis for the proceedings that have been discontinued, has also been assigned to the Fund. Before that assignment, it was possible that the claims could

be re-enlivened if either the Liquidator was funded to do so or if the Liquidators chose to sell the action to a 3rd party. I am awaiting an update from the Liquidators in relation to the status of the winding up and the prospects for a return to creditors, however I understand that the Liquidators have not been able to identify any realisable assets at this stage so a dividend appears unlikely;

- I have continued to liaise with PTAL to ensure that the bank guarantee for the security for costs of \$150,000 provided by the Austcorp companies for the benefit of PTAL will now be recovered for the benefit of FMIF, given FMIF has reimbursed PTAL (which was sued in its capacity as custodian of the FMIF) for its defence costs.

1.3.3 Redemptions and Distributions paid to Class B Unit Holders

I refer to my previous updates to investors and summarise the background as follows:

- Investigations have been undertaken via the PE conducted in 2015 and subsequent thereto in relation to redemptions and distributions paid to the Class B unit holders (Feeder Funds) when the Fund had suspended redemptions and distributions to other classes of members;
- The Feeder funds are the LM Currency Protected Australian Income Fund (CPAIF), the LM Institutional Currency Protected Australian Income Fund (ICPAIF) and the LM Wholesale First Mortgage Income Fund (WMIF).

I summarise developments since my update to investors as follows:

- On 28 July 2017, I caused to be filed an amended statement of claim against LMIM and the Feeder funds. This claim has now been formally served on the parties. The relief sought in the claim includes declarations to withhold from distributions or payments otherwise payable from the Fund to:
 - CPAIF in the sum of \$40,583,109.06 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the CPAIF would otherwise have been entitled as referred to in the amended statement of claim;
 - ICPAIF in the sum of \$5,044,118.30 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the CPAIF would otherwise have been entitled as referred to in the amended statement of claim;
 - WMIF in the sum of \$9,432,090.76 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the WMIF would otherwise have been entitled as referred to in the amended statement of claim.
- If the Court grants the relief sought against the Feeder Funds and putting aside any other recoveries for the benefit of investors:
 - the CPAIF and ICPAIF is not likely to receive any distribution in the winding up of the FMIF;

- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF;
- the FMIF can use the funds which otherwise would have been paid to the Feeder Funds for distributions to investors generally instead and, as a result, the return to other investors (Class A and Class C) is likely to increase.

As a next step in these proceedings I now intend to make an application under Section 59 of the Trusts Act to seek directions in regards to how the differing interests of LMIM is to be represented in the proceedings and an application under Section 500 of the Corporations Act to seek leave to proceed against LMIM (which is required because it is in liquidation). At the hearing of those applications, I also intend to seek orders for a timetable for the future conduct of the proceedings, including the filing of defences and replies.

I will keep investors updated as to the progress of this claim.

1.3.4 External Valuations

I refer to my previous reports to investors. I have not at this stage identified any claims that would be commercial to pursue based on my investigations into whether the valuations relied on in advancing loans was too high and if there was negligence by the valuer.

1.3.6 Various claim against Guarantors

During the period I progressed a review of the loan book to ascertain if there are any further claims against guarantors capable of commercial recoveries. One matter is currently the subject of court proceedings. Another matter previously subject to Court proceedings has been settled on a commercial basis with the guarantor.

1.3.7 Western Union

Western Union hold funds on account of the FMIF, 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 alleged liabilities of LMIM in its capacity as RE of other funds, however a confidential commercial settlement has been negotiated and agreed. The amount of the claim is approximately \$93,000 (subject to exchange rate fluctuations). While the terms of settlement have been agreed, Western Union requested that the terms be further recorded in a settlement deed. The terms of the draft settlement deed are still being finalised and were further negotiated during the period. I am hopeful that this matter can be finalised shortly.

1.3.8 Liquidators of LMIM (FTI Consulting)

a. Application for remuneration approval

I refer to my previous updates to investors and summarise the background as follows:

- 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;

- Judgement is reserved and is yet to be handed down by the Court.

FTI have not submitted further details of their additional remuneration and costs claimed after mid December 2015 and have advised that they are awaiting the outcome of the judgement noted above.

Please note that all material filed with the Court in relation to FTI's remuneration claim is available on the websites www.lmfmf.com and www.lminvestmentadministration.com. A copy of the judgement and court order will be uploaded to the websites when handed down.

b. Indemnity claim against the Fund and proof of debt process

As advised in my previous reports to investors, the orders handed down following the hearing of FTI's application for directions and orders in relation to their ongoing role and extent of their powers and responsibilities to undertake certain duties in the winding up of the FMIF set out, amongst other things, the process for me to adjudicate on claims made by LMIM for indemnity against the property of the FMIF in respect to any expense or liability of, or claim against, LMIM in acting as Responsible Entity of the FMIF.

I refer to my previous updates to investors and summarise the background as follows:

- FTI 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;
- In respect of the second claim, I accepted and paid \$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 made an application to Court challenging my decision to reject their indemnity claim noted above (Indemnity Application);
- I obtained judicial advice to the effect that I am justified in raising the clear accounts rule in opposition to the Indemnity Application, in relation to certain identified claims;
- I caused to be filed a detailed Points of Claim in preparation for the hearing;
- FTI's Indemnity Application challenging my decision to reject FTI's indemnity claim was heard on 19 and 20 June 2017. The Court has reserved its decision;
- At the abovementioned hearing, mention was made of the process of FTI calling for proofs of debt from creditors of LMIM in its capacity of RE of the Fund in order to ascertain the liabilities to Fund creditors. I am hopeful that this process can be undertaken in the near future.

If a debt or claim is admitted by FTI in the winding up of LMIM and a claim for indemnity out of the FMIF with respect to such debt or claim is identified, I summarise the process as outlined in the Orders as follows:

- FTI must notify me within 14 days of the claim for indemnity against the assets of the Fund;
- Within 14 days I may seek further information in relation to the claim

- Within 30 days of receipt of the claim from FTI or from receipt of further information I have requested, I am required to:
 - Accept the claim, or
 - Reject the claim, or
 - Accept part of it and reject part of the claim; and
 - To give FTI written notice of the decision;
- I am required to give FTI written reasons for rejecting any part of a claim within 7 days after giving notice of my decision including those claims identified through the proof of debt process mentioned above;
- Within 28 days of receiving a notice of rejection, FTI may apply to the Court for directions in relation to the rejection and advise the creditor of my decision and other specified matters.

c. Claim filed against LMIM

I refer to my previous report to investors and confirm that in November 2016, I caused LMIM as RE of the FMIF to commence a proceeding against LMIM (Supreme Court of Queensland Proceedings 11560) in relation to certain transactions to avoid possible expiry of the statutory limitation periods for making the claims.

In this proceeding, LMIM as RE of the FMIF alleges that, *inter alia*, LMIM breached its duties to members of the FMIF by:

- causing to be paid out of assets of the FMIF management fees in advance of it becoming entitled to payment of same;
- overpaying management fees to itself out of assets of the FMIF;
- causing to be paid to LMA additional fees purportedly for loan management and controllership services; and
- directing payments to be made by the MPF, purportedly in satisfaction of liabilities owed by the MPF to the FMIF, to be paid to itself as RE of the feeder funds.

I summarise developments since my update to investors as follows:

- Further investigations were undertaken including in relation to payment of management and additional loan management fees and a consolidated particulars document was prepared to support the amended statement of claim;
- the amended claim and statement of claim and consolidated particulars have been filed and served on LMIM.

The next steps in these proceedings are to make an application under Section 59 of the Trusts Act to seek directions of the Court in regard to how the differing interests of the parties (LMIM as RE of the FMIF, and LMIM in its personal capacity) are to be represented in the proceedings and an application under Section 500 of the Corporations Act to seek leave to proceed against LMIM.

Subject to any directions that may be made by the Court, if the claims made in this proceeding are successful, they may be able to be relied upon as a set-off against certain claims made by LMIM for indemnity out of assets of the FMIF, including those claims identified through the proof of debt process

mentioned above or claims made by other parties seeking to subrogate to LMIM's alleged rights of indemnity.

I will keep investors updated as to the progress of this claim.

2. Financial Position of the Fund

The management accounts for the year ending 30 June 2017 are available on the website www.lmfimf.com on the page titled 'Financial Statements & Other Key Documents'.

A summary of the financial position of the Fund as at 30 June 2017 is provided below.

Description	30 June 2017
ASSETS	\$
Cash and cash equivalents	73,094,783
Receivables	351,024
Loans & Receivables	3,620,167
TOTAL ASSETS	77,065,974
LIABILITIES	
Payables	6,883,961
Distributions payable	1,372,036
Total liabilities excluding net assets attributable to unitholders	8,255,997
NET ASSETS	68,809,977

These figures are subject to the disclaimers and qualifications set out in the management accounts and the covering letter thereto.

Financial Position of Scheme as at 30 June 2017

Fund Assets

The total assets of the Fund as at 30 June 2017 were \$77,065,974.

The balance includes cash at bank of \$73,094,783, interest receivable on term deposits of \$351,024 and net default loans of \$3,620,167. The net default loans balance includes the two remaining real property assets noted at section 1.2 above and cash held in controllership bank accounts.

Fund Liabilities

The total liabilities of the Fund as at 30 June 2017 were \$8,255,997.

The Distributions payable balance relates to distributions that appear to have been declared prior to the date of the Receiver's appointment which were not paid, or have not cleared or were returned unclaimed.

The Payables balance primarily consists of trade creditors, custodian fees, legal fees, receiver’s fees and fees and expenses claimed by FTI, which remain unpaid as at 30 June 2017.

Some of these liabilities have not been verified, or may be subject to court approval being obtained.

Net Assets Attributable to Unit Holders

Net assets attributable to unit holders as at 30 June 2017 were \$68,809,977

The net assets of the Fund and number of units on issue as at 30 June 2017 and 31 December 2016 is detailed in the table below.

Description	30 June 2017	31 December 2016
Estimated net amount of assets available to investors as at period end (\$)	68,809,977	70,248,277
Total investor units (# of units)	478,100,386	478,100,386
Estimated net asset amount per unit available to investors as at period end (cents in the dollar)	14.4	14.7

Investments made in Foreign Currencies

Investigations undertaken by BDO have identified certain apparent discrepancies in the register of members of the FMIF as the units in the FMIF held by investors who invested in foreign currencies appear to be presently inaccurately recorded in the register of members of the FMIF.

It appears that this stems from a transfer of the membership records of the FMIF to a new database in 2010, and the way in which the number of units of investors who invested in foreign currency were then recorded in the new database.

Under section 175 of the Corporations Act, prior to correcting the register of members, Court approval is required.

I summarise developments since my update to investors as follows:

- I undertook further investigations and identified conversion files on LM’s servers which appear to contain the data used when converting the investor database data from the old legacy computer system to the replacement AX computer system;
- I conferred with and finalised a service request with the IT consultants outlining the proposed steps to test a proposed solution to rectify the Fund’s investor register which has involved duplicating the investor database as a test platform to re-perform the conversion of the foreign investor data into the duplicate of the AX system using the existing AUD data;
- After obtaining advice from my solicitors, I liaised with the Liquidators of LMIM, the Trustee of the MPF, the responsible entity of the WMIF and the receivers and managers of the CPAIF and ICPAIF and obtained their consent to providing our IT consultant with a copy of the AX investor database to enable a test of the proposed solution to correct the membership records to be undertaken on this copy of the AX database.

Steps are now being taken to commence the process of testing the conversion files located to assess the integrity of the data for use in the testing phase of the project. After our IT consultants have completed the testing phase of rectifying the investor register on the AX database copy, appropriate steps will then be taken, including an application to Court for directions approving the correction of the member records of the FMIF, before such corrections are undertaken.

3. Receipts and Payments of the Fund

The receipts and payments of the Fund, as maintained by the DB Receivers, for the period 1 January 2017 to 30 June 2017 is summarised in the table below.

Description	\$
Receipts	
Loan Reductions	1,958,357
Interest	518,591
GST received	127,698
Other income/refunds received	2,411
Total receipts	2,607,057
Payments	
Bank charges	22
Legal fees	1,153,721
Loan draws	47,526
IT expenses and record management/storage	130,500
Total payments	1,331,769
Net receipts (payments)	1,275,288

4. Investor Information

4.1 Estimated Return to Investors as at 31 August 2017

Based on the professional valuation for the remaining property charged to the Fund, I provide an estimated return to Investors of between 13.2 cents and 14.5 cents per unit as at 31 August 2017, calculated as follows:

Description	Low \$	High \$
Cash at bank	71,748,290	71,748,290
Other assets (including estimated sale price of remaining property net of selling costs)	2,846,918	4,251,918
Estimated Assets Position	74,595,208	76,000,208
Other unsecured creditors	6,288,954	1,559,889
FTI Fees & legal expenses advised (subject to approval)- refer to Section 1.3.9 for further details - maximum amount shown	4,211,638	4,211,638
Receivers and Managers' fees (DB Receivers)	83,397	83,397
Receiver's fees & outlays (BDO) (including controllerships)	763,716	763,716
Total Liabilities	11,402,705	6,678,640
Estimated net amount available to investors as at 31 August 2017	63,247,502	69,381,567
Total investor units (as at 30 June 2017)	478,100,386	478,100,386
Estimated return in the dollar	13.2 cents	14.5 cents

Please note that the above 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 including the claim and relief now sought against the Feeder Funds.

In calculating the estimated return to investors, I have also not provided any allowance for the claims filed by the MPF Trustee as the prospects of a successful claim against the Fund is unknown.

4.2 Estimated Unit Price as at 30 June 2017

The estimated unit price as at 30 June 2017 is 14.4 cents, which is based on estimated selling price of the remaining secured asset as at 30 June 2017.

Description	\$
Total Value of Fund Assets as at 30 June 2017 (net of land tax and rates)	77,065,974
Less Creditors and Other Payables	8,255,997
Total Net Value of Fund Assets	68,809,977
Total Number of Units	478,100,386
Unit Price Estimate	14.4

I *attach* a copy of a letter confirming the unit price as at 30 June 2017, which may be forwarded to Centrelink to assist with the review of investors' pensions.

4.3 Distributions to Investors

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 auditor claim and Bellpac litigation.

I am required to seek the directions of the Court before proceeding with a distribution. In addition, with the claim against the Feeder Funds (see 1.3.3 above) now filed and served on the parties, this claim will need to be resolved prior to any distribution to investors.

I will update investors as to the expected timing of a distribution as these matters become clearer, however, I am working towards being in a position to commence distributions as soon as practicable, although it is subject to resolving matters before the court where I cannot necessarily control the timeframe to resolve the issues.

Please note that the distribution to investors will take place after paying creditors, costs, land tax, rates, Receivers fees and other claims which rank ahead of investors' interests.

4.4 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 4.5 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 in December 2017.

4.5 Investors Queries

Arrangements are in place to ensure that any reasonable questions asked by members of the FMIF, about the winding up of the FMIF, will be answered within a reasonable period of time (generally seven days) and without charge to the investor.

For any changes to investors details, please review the Useful Forms/Procedures tab on the website www.lmfimf.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 questions about the winding up, or communications are sent via email to enquiries@lmfimf.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

5. Receiver's Remuneration and Expenses

There have been seven applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2017.

The application for the approval of my remuneration for the period 1 November to 30 April 2017 was heard by the Court on 30 June 2017. The Court ordered that my remuneration for this period be fixed in the amount of \$897,580.20 (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 \$12,314.50 (inclusive of GST) 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.lmfimf.com.

In addition to the remuneration previously approved by the Court, I calculate that, on a time basis, I have incurred further remuneration of \$706,359.50 (exclusive of GST) plus outlays of \$8,567.20 (exclusive of GST) from 1 May 2017 to 31 August 2017 plus work undertaken in respect of the

controllerships for the retirement village assets of \$15,902.00 (exclusive of GST) as detailed in the table below and attached summaries.

Company Name	Remuneration (GST exclusive) \$	Outlays (GST exclusive) \$
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	706,359.50	8,567.20
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	1,703.50	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed) (Controllers Appointed)	243.00	-
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	11,370.50	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	868.00	-
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	956.00	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	761.00	-
Total	722,261.50	8,567.20

I anticipate that my next application to Court for the approval of my remuneration will be made in November 2017 covering the period 1 May 2017 to 31 October 2017. A copy of my application in this respect will be posted to the website www.lmfimf.com and investors will be notified when this application has been lodged.

6. Actions taken during the period

I provide below a summary of actions taken during the period from 1 January to 30 June 2017:

- Work undertaken in relation to the litigation matters detailed at Section 1.1 and 1.3 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, amending the claim and conducting substantial work finalising the quantification of the loss suffered by the Fund. See Section 1.3.1 above;
 - Amending two statements of claim which have been filed against LMIM and the Feeder Funds in relation to certain transactions. See sections 1.3.3 and 1.3.8c above;
 - Monitoring and providing assistance to the Liquidator of Bellpac regarding the \$8M bonds claim, progressing this matter, and also dealing with the MPF's claim for reimbursement of litigation funding costs from the proceeds of the Bonds. See section 1.3.2 above;
 - Progressing the claim against the MPF and others;

- Pursuing the recovery of the security for costs in favour of PTAL in the Austcorp matter as well as obtaining assignments of the Austcorp companies' security to avoid any potential further proceedings against the Fund. See section 1.3.2 above;
- 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 potential for the DB Receiver's retirement;
- Taking steps to finalise a settlement deed further recording the agreement reached in relation to Western Union's set off claim;
- Responding to FTI's application to court to challenge my decision to reject certain claims by LMIM (or FTI) for indemnity against the assets of the Fund for certain expenses and costs;
- Maintaining the management accounts of the Fund and prepare management accounts for the year ending 30 June 2017 and for the half year ending 31 December 2016;
- 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;
- Preparing affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 November 2016 to 30 April 2017;
- Finalising outstanding matters from the sale of five retirement villages, including tax compliance issues;
- Investigations into the migration of the Composer investor management database to the AX investor management database and agreeing a plan with an IT consultant in relation to proposed correction of membership records in relation to investors that acquired units in foreign currencies;
- Attending to compliance with ASIC's grant of relief from the requirements of a half year review and annual audit of the financial reports and compliance plan;
- Preparation of unit price calculations as at 30 June 2017 and 31 December 2016; and
- Preparation of update reports to investors in March, June and September 2017.

7. Actions proposed to be taken in the next 12 months

I provide below a summary of the proposed actions to be taken in the next 12 months in relation to the winding up of the Fund:

- Take steps to finalise the various ongoing litigation matters outlined in this report;
- Sale and settlement of the remaining real property outlined at section 1.2 of this report;
- Continue to monitor and assist the Bellpac liquidator to achieve settlement or determination of the \$8M bonds claim;
- Resolve the MPF claim against the proceeds of the Bonds;

- Liaise with the Liquidator of the Austcorp companies to determine the potential for a return in the windings up for the benefit of the Fund;
- Finalise investigations in relation to potential claims against external valuers;
- Finalise all claims against guarantors;
- Obtain a release of funds held by Western Union;
- Resolve or have determined FTI's indemnity claim against the Fund;
- Maintain the accounts of the Fund and prepare management accounts for the half year ending 31 December 2017;
- Resolve the issues relating to the investor units subscribed in foreign currencies in the investor management database, and obtain court approval to correct the member records of the FMIF;
- Maintain the investor management database;
- Subject to settlement of the proceedings in section 1.1.3, the retirement of the DB receivers and obtaining appropriate orders in the Feeder Fund proceedings and approval from the Court, process an interim distributions to investors;
- Report to investors on a quarterly basis; and
- Make applications to Court for remuneration approval.

Please note that the timing to finalise some of the above matters will be subject to judgments being handed down by the Court.

8. Actions required to complete the winding up

I provide below a summary of the key actions required to complete the winding up:

- Realise the remaining real property;
- Finalise all litigation currently on foot and contemplated;
- Resolve or have determined FTI's indemnity claim (and any further claims) against the Fund;
- Discharge all liabilities of the Fund;
- Obtain a discharge of the DB security and of the DB Receivers;
- Obtain approval from the Court to process interim distributions and a final distribution to investors;
- Prepare final accounts for the Fund;
- Arrange for an auditor to audit the final accounts of the Fund after the Fund is wound up; and
- Obtain court orders in relation to the finalisation of my role in relation to the Fund.

I anticipate that the winding up of the Fund will be finalised in approximately 18 to 24 months, however, this may vary subject to the progression of the outstanding legal matters detailed in this report.

9. 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

Yours faithfully

A handwritten signature in black ink, appearing to read 'David Whyte'. The signature is stylized with 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 2017 to 31 August 2017
LW First Mortgage Income Fund

Employee	Position	Rate	Totals		Task Area											
			hrs	\$	Assets		Creditors		Trade On		Investigations		Dividends		Administration	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	580	172.6	100,108.00	45.1	26,158.00	18.9	10,962.00	82.1	47,618.00	4.4	2,552.00			22.1	12,818.00
Clark Jarrold	Partner	580	29.5	17,110.00	29.5	17,110.00										
Clark Jarrold	Partner	560	41.1	23,016.00	41.1	23,016.00										
Mark Whittaker	Partner	560	1.3	728.00	1.3	728.00										
Mark Whittaker	Partner	550	7.7	4,235.00	7.7	4,235.00										
Craig Jenkins	Partner	500	1.2	600.00	0.5	250.00	0.7	350.00								
Kim Colyer	Partner	500	0.4	200.00	0.4	200.00										
Eric Leeuwendal	Executive Director	495	534.9	264,775.50	195.0	96,525.00	95.2	47,124.00	44.3	21,928.50	128.0	63,360.00	0.6	297.00	71.8	35,541.00
Michelle Williams	Senior Manager	470	3.7	1,739.00					1.9	893.00					1.8	846.00
Alastair Raphael	Senior Manager	455	0.5	227.50			0.5	227.50								
Julie Pagcu	Senior Manager	385	22.3	8,585.50	21.9	8,431.50	0.4	154.00								
Ainsley Watt	Senior Accountant I	350	18.4	6,440.00	1.5	525.00	8.3	2,905.00	2.3	805.00	2.4	840.00			3.9	1,365.00
Aubrey Meek	Senior Accountant II	310	214.3	66,433.00	12.8	3,968.00	76.1	23,591.00	32.6	10,106.00	26.0	8,060.00			66.8	20,708.00
Aubrey Meek	Senior Accountant II	290	197.9	57,391.00	26.7	7,743.00	86.6	25,114.00	0.2	58.00	74.1	21,489.00			10.3	2,987.00
Sarah Cunningham	Team Assistant	215	1.9	408.50											1.9	408.50
Andrew Whittaker	Accountant II	215	1.4	301.00			1.4	301.00								
Eloise Carroll	Accountant II	215	51.2	11,008.00	0.5	107.50	34.4	7,396.00	13.4	2,881.00	0.3	64.50			2.6	559.00
Eloise Carroll	Accountant II	200	176.2	35,240.00	2.9	580.00	138.1	27,620.00	9.6	1,920.00	22.4	4,480.00			3.2	640.00
Ryan Whyte	Undergraduate	175	112.3	19,652.50	2.1	367.50	103.5	18,112.50			4.0	700.00			2.7	472.50
George Lethbridge	Undergraduate	175	64.3	11,252.50			61.3	10,727.50			16.7	2,922.50			3.0	525.00
Antoinette Fielding	Undergraduate	175	186.8	32,690.00	1.0	175.00	157.5	27,562.50	1.9	332.50					9.7	1,697.50
Andrew Whittaker	Accountant II	165	62.9	10,378.50	11.9	1,963.50	49.7	8,200.50			4.2	693.00			1.3	214.50
Ryan Whyte	Undergraduate	165	100.7	16,615.50			76.1	12,556.50			10.0	1,650.00			20.4	3,366.00
Antoinette Fielding	Undergraduate	165	85.8	14,157.00	1.2	198.00	66.7	11,005.50	2.8	462.00					5.1	841.50
Nicole Jackson	Team Assistant	160	1.3	208.00			0.8	124.00							1.3	208.00
Andrew Whittaker	Accountant II	155	0.8	124.00												
Brooke Stredl	Team Assistant	130	8.4	1,092.00	5.1	663.00									3.3	429.00
Maira Hattigh	Team Assistant	95	7.1	674.50											7.1	674.50
Maira Hattigh	Team Assistant	85	11.4	969.00											11.4	969.00
TOTALS			2,118.3	706,359.50	408.2	192,944.00	976.2	234,033.50	191.1	87,004.00	292.5	106,811.00	0.6	297.00	249.7	85,270.00
			GST	70,635.95												
			TOTAL INC GST	776,995.45												
			AVERAGE HOURLY RATE	333	473	240	455	365	495	341						

Note: All amounts exclude GST unless otherwise noted



Disbursements for the period 1 May 2017 to 31 August 2017

LM First Mortgage Income Fund

Expense Type	Amount (\$ ex GST)
Taxi fares	8.47
Postage	8,118.71
Search Fee	322.72
Printing	117.30
TOTAL	8,567.20
GST	856.72
TOTAL INC GST	9,423.92



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017
Bridgewater Lake Estate Pty Limited

Employee	Position	Rate	Totals		Task Area							
			hrs	\$	Assets hrs	Assets \$	Creditors hrs	Creditors \$	Investigations hrs	Investigations \$	Administration hrs	Administration \$
David Whyte	Partner	580	0.1	58.00							0.1	58.00
Eric Leeuwendal	Executive Director	495	0.4	198.00		49.50		0.1			0.3	148.50
Aubrey Meek	Senior Accountant II	310	1.0	310.00						124.00	0.6	186.00
Aubrey Meek	Senior Accountant II	290	2.9	841.00	0.2	58.00					2.7	783.00
Sarah Cunningham	Team Assistant	215	0.1	21.50							0.1	21.50
Sarah Cunningham	Team Assistant	200	0.7	140.00							0.7	140.00
Ryan Whyte	Undergraduate	165	0.6	99.00							0.6	99.00
Moira Hattingh	Team Assistant	95	0.2	19.00							0.2	19.00
Moira Hattingh	Team Assistant	85	0.2	17.00							0.2	17.00
TOTALS			6.2	1,703.50	0.2	58.00	0.1	49.50	0.4	124.00	5.5	1,472.00
			GST	170.35								
			TOTAL INC GST	1,873.85								
			AVERAGE HOURLY RATE	275	290	495	310	268				

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	hrs
Sarah Cunningham	Team Assistant	215	0.1	21.50	0.1	21.50
Sarah Cunningham	Team Assistant	200	0.4	80.00	0.4	80.00
Ryan Whyte	Undergraduate	165	0.8	132.00	0.8	132.00
Maira Hattingh	Team Assistant	95	0.1	9.50	0.1	9.50
TOTALS			1.4	243.00	1.4	243.00
			GST		24.30	
			TOTAL INC GST		267.30	
			AVERAGE HOURLY RATE		174	

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017

OVST Pty Ltd

Employee	Position	Rate	Totals		Task Area						
			hrs	\$	Assets	Trade On	Investigations	Administration	hrs	\$	
Leisa Rafter	Partner	650	0.2	130.00						0.2	130.00
John Garrard	Senior Manager	515	1.1	566.50						1.1	566.50
Eric Leeuwendal	Executive Director	495	1.2	594.00		0.4	198.00			0.8	396.00
Samuel Alexander	Manager	450	2.6	1,170.00		2.6	1,170.00				
Ainsley Watt	Senior Accountant I	350	0.5	175.00				0.5	175.00		
Aubrey Meek	Senior Accountant II	310	23.4	7,254.00				6.3	1,953.00	17.1	5,301.00
Aubrey Meek	Senior Accountant II	290	0.9	261.00	0.9						
Brad Gallant	Senior Consultant II	280	1.5	420.00		1.5	420.00				
Brad Gallant	Senior Consultant II	225	0.5	112.50		0.5	112.50				
Sarah Cunningham	Team Assistant	215	0.2	43.00						0.2	43.00
Sarah Cunningham	Team Assistant	200	2.0	400.00						2.0	400.00
Ryan Whyte	Undergraduate	165	1.0	165.00						1.0	165.00
Moira Hattingh	Team Assistant	95	0.3	28.50						0.3	28.50
Moira Hattingh	Team Assistant	85	0.6	51.00						0.6	51.00
TOTALS			36.0	11,370.50	0.9	261.00	1,900.50	6.8	2,128.00	23.3	7,081.00
			GST	1,137.05							
			TOTAL INC GST	12,507.55							
			AVERAGE HOURLY RATE	316	290	380	313				

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017

Pinevale Villas Morayfield Pty Ltd

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.3	105.00	0.3	105.00
Sarah Cunningham	Team Assistant	200	2.9	580.00	2.9	580.00
Ryan Whyte	Undergraduate	165	0.8	132.00	0.8	132.00
Moira Hattingh	Team Assistant	85	0.6	51.00	0.6	51.00
TOTALS			4.6	868.00	4.6	868.00
			GST			
			TOTAL INC GST			
			AVERAGE HOURLY RATE			
			189		189	

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017

Redland Bay Leisure Life Development Pty Ltd

Employee	Position	Rate	Totals		Task Area
			hrs	\$	
Alex Taylor	Senior Consultant I	230	2.5	575.00	Administration
Sarah Cunningham	Team Assistant	215	0.3	64.50	
Sarah Cunningham	Team Assistant	200	0.6	120.00	
Ryan Whyte	Undergraduate	165	0.8	132.00	
Moira Hattingh	Team Assistant	95	0.5	47.50	
Moira Hattingh	Team Assistant	85	0.2	17.00	
TOTALS			4.9	956.00	4.9
			GST	95.60	
			TOTAL INC GST	1,051.60	
			AVERAGE HOURLY RATE	195	195

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2017 to 31 August 2017
 Redland Bay Leisure Life Pty Ltd

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	hrs
Sarah Cunningham	Team Assistant	215	0.3	64.50	0.3	64.50
Sarah Cunningham	Team Assistant	200	2.5	500.00	2.5	500.00
Ryan Whyte	Undergraduate	165	0.8	132.00	0.8	132.00
Moira Hattingh	Team Assistant	95	0.5	47.50	0.5	47.50
Moira Hattingh	Team Assistant	85	0.2	17.00	0.2	17.00
TOTALS			4.3	761.00	4.3	761.00
			GST	76.10		
			TOTAL INC GST	837.10		
			AVERAGE HOURLY RATE	177	177	

Note: All amounts exclude GST unless otherwise noted

29 September 2017

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 2017, calculated as follows:

Description	\$
Total Value of Fund Assets as at 30 June 2017 (net of land tax and rates)	77,065,974
Less Creditors and Other Payables	8,255,997
Total Net Value of Fund Assets	68,809,977
Total Number of Units	478,100,386
Unit Price Estimate	14.4

Should you have any queries in respect of the above, please contact Ainsley Watt of my office on (07) 3173 5564 or enquiries@lmfmif.com.au.

Yours faithfully,



David Whyte
Receiver