

TO THE INVESTOR AS ADDRESSED

29 June 2018

**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 22nd 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 March 2018. This report should be read in conjunction with my previous reports, which are available on the website www.lmfimf.com.

There has been significant progress made since my last report dated 29 March 2018 in the following respects:

- Two of the three proceedings commenced by the MPF against the Fund's assets for total claims of \$24.1m plus interest have been discontinued and I am taking steps for the third to be either prosecuted by the MPF or discontinued (refer section 2.1);
- I am in discussions with the Receivers and Managers (McGrathNicol) regarding their retirement and they have advised that they expect to retire within one month;
- The proceedings against the Feeder Funds have been progressed with court orders being made on 13 June 2018 which included the granting of leave to proceed against LMIM (being a company in liquidation), placing the proceedings on the commercial list and directing the parties to undertake mediation by 28 September 2018 (refer section 2.6);
- Prior to the mediation of the Feeder Fund claim, I intend applying to court to seek orders to correct the member register relating to foreign currency investors where I have identified errors in the management of same (refer section 4.2);
- Should the Receivers and Managers have resigned, the Feeder Fund claims are settled at mediation and the proof of debt process has been completed by FTI as set out at section 2.7.2 of this report, I intend applying to court to allow an interim distribution to investors. An update will be provided in my next report to investors by 30 September 2018;

A summary of the other matters covered in this report is as follows:

- Cash at bank as at 31 May 2018 was \$70,209,210;
- The estimated return to investors is currently 13.0 to 14.2 cents per unit as detailed at Section 4.1 below and before taking into account future costs and recoveries from legal proceedings on foot;

- The claim against the directors, LMIM and MPF for \$15.5M plus interest, has not settled and the matter is now being progressed towards a trial which is likely to be held in the first half of 2019 (refer section 2.3);
- Orders for progressing the claim against the former auditors were made by the Court on 29 May 2018. The effect of these orders was to set a timetable for further progressing the matter. Further details are provided in Section 2.4 below;
- Settlement of the Bellpac Liquidator's \$8M Bonds litigation has progressed however, the remaining condition precedent to settlement has been further extended to 31 August 2018. This is expected to realise \$6.3M for the benefit of investors (refer section 2.5).

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

2.1.1 Assigned Loans Claims

I refer to my previous updates to investors in relation to these proceedings, in which the Trustee of the MPF (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 included equitable compensation against LMIM and claims against the assets of the FMIF in the total sum of about \$24.1 million plus interest.

The MPF Trustee applied to the Court for directions as to whether it would be justified discontinuing the proceedings, and on 7 June 2018 the Court directed it would be. Notices of discontinuance have accordingly been filed in both proceedings.

2.1.2 AIIS Loan Claim

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

The MPF 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.

This claim was filed on 16 December 2015 and the Statement of Claim was served on 28 November 2016. Since then no steps have been taken in the proceeding, and the MPF has not required a defence. I therefore took steps to request that the MPF either expeditiously progress its claim or discontinue the proceeding, failing which I intend to apply to Court to be joined as a defendant, to defend the claims made against assets of the FMIF, and then actively seek to bring the matter to closure.

2.2 Position of the Secured Creditor

Following the discontinuance of the two proceedings brought by the MPF for claims totalling \$24.1m plus interest, I have been in discussions with the DB Receivers about their retirement. They have recently advised that they expect to retire within one month.

2.3 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 the MPF in the Bellpac litigation matter. The claim is for approximately \$15.5M plus interest.

While attempts to settle the proceedings had been continuing in relation to these proceedings and those proceedings referred to in section 2.1.1 above, I continued to take steps to progress the proceedings including:

- As at 6 April 2018 all director defendants, except for John Francis O'Sullivan and LMIM in its own right have filed Amended Defences;
- I have filed Replies to the Amended Defences received and made requests for further particulars which have all been responded to;
- Obtaining orders enabling me 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.

As previously advised, the proceedings have not settled following settlement discussions. Accordingly, I am now progressing these proceedings to a trial. Progress on the steps set out in the timetable following the review hearing held on 14 March 2018, are as follows:

- An Amended Defence of the 1st director defendant (being Peter Drake) was filed and served by 23 March 2018. This has been completed.;
- The Replies to the further Amended Defences of the 3rd and 4th defendants were to be filed and served on 29 March 2018. This has been completed;
- The Reply to the Amended Defence of the 1st defendant was filed and served by 6 April 2018. This has been completed;
- Replies to the Amended Defences of the 2nd, 6th and 8th defendants were to be filed and served by 20 April 2018. This has been completed;
- Further disclosure was required to be undertaken by myself, the 1st, 2nd, 3rd, 4th, 6th and 8th defendants by 20 April 2018. The 1st defendant made minor further disclosure on 20 April 2018. I also made minor further disclosure on 20 April 2018. The other defendants did not make any further disclosure;
- The Draft Trial Index has been completed, bar a few minor matters and the Assigned Loans matter which has now been added to the replies to the defendants;
- The Draft Trial Index was forwarded to the defendants on 1 June 2018, with a response requested by 27 July 2018;

- The next review hearing date is set for 16 August 2018 when it is hoped a trial date can be set for the first half of 2019.

As the proceedings are ongoing, an update will be provided to investors in relation to this matter in my next report.

2.4 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 in 2015;
- Following the PEs, a further amended statement of claim was filed by me and served on the former auditors of the Fund on 14 April 2016;
- The former auditors lodged and served on me a strike-out application and supporting affidavit on 27 April 2016 (amended on 15 December 2016) seeking orders to strike-out certain parts of the statement of claim;
- At the hearing of the former auditors' strike out application, 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. Orders were made that the statement of claim be amended to delete certain causes of action and to include details of the quantification of loss;
- 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;
- The amended statement of claim was filed on 20 November 2017 and served on the former auditors. Details of the loss has been included in the amended statement of claim which has been calculated (at its highest) in excess of \$200 million. A significant amount of work has been undertaken in this regard, including quantifying the loss at 6 monthly hypothetical winding up dates between 1 July 2009 and 1 January 2013 being the estimated additional costs and expenses incurred by the Fund as a consequence of the alleged delay in winding up the Fund;
- I have received a number of requests pursuant to Rule 222 of the Court Rules (Rules) from the former auditors to provide documents referred to in the amended statement of claim which requests have been responded to.

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

- On 29 May 2018 the Court handed down the following orders:
 - The parties' costs of the defendants' application filed 27 April 2016 and of the defendants' amended application filed 15 December 2016 are reserved;
 - The defendants serve any request for further and better particulars of the Third Further Amended Statement of Claim, other than paragraphs 121 and 123, by 15 June 2018. This has been done;

- The plaintiff respond to the defendants request for further and better particulars by 10 August 2018;
- The plaintiff file and serve its application to amend its claim, and any Fourth Further Amended Statement of Claim, by 15 June 2018;
- The defendants advise the plaintiff whether they consent to or oppose the plaintiff's application to amend its claim by 29 June 2018;
- If the defendants oppose the plaintiff's application:
 - The defendants file and serve any evidence in response to the plaintiff's application by 13 July 2018;
 - The plaintiff file and serve its written submissions in support of its application by 27 July 2018;
 - The defendants file and serve their written submissions in opposition to the plaintiff's application by 10 August 2018.
- The matter is listed for a Review and for hearing of the plaintiff's application, on a date to be fixed on or after 20 August 2018;
- On 15 June 2018, in accordance with the Order dated 29 May 2018, I caused the application for leave to amend the Claim and the supporting affidavit to be filed in the Court. I will respond appropriately to the balance of the timetable handed down by the Court.

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

2.5 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 item 1 above, there is another matter relating to Bellpac that has been progressed during the Period, as detailed below.

Wollongong Coal Ltd (WCL) - \$10 million 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;
- The defendants' appeal of 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 was unsuccessful;
- 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 heads of agreement 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;

- The conditions precedent to the settlement with WCL include obtaining necessary approvals to undertake the settlement transactions. In this regard:
 - The Bellpac Liquidator has obtained creditor approval to enter into the settlement with WCL;
 - The Court declined to exercise its discretion on WCL's application for approval to acquire and or cancel Bellpac's holding of WCL shares. WCL is now preparing to seek shareholder approval.
- The Trustees of the MPF (MPF) have demanded from the Liquidator circa \$680K plus interest out of the proceeds of the Bonds 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:

- The sunset date of the HOA to complete the condition precedent to obtain approval from the Court or shareholders was further extended by agreement to 31 August 2018 to provide more time for WCL to obtain the required documents needed for submission to their shareholders prior to the meeting of shareholders;
- In relation to the MPF claim for reimbursement for funding as referred to above, I have written to the Liquidator and I am currently awaiting a response to my recent correspondence regarding the monies held by him. The Bellpac Liquidator has confirmed he will not take any step adverse to either the MPF or FMIF without first giving the parties 7 days' notice.

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.

2.6 Redemptions and Distributions paid to Class B Unit Holders (Feeder Funds)

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);

On 28 July 2017, I caused to be filed an amended statement of claim against LMIM and the Feeder Funds and the claim was then 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 ICPAIF 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.
- In October 2017, I caused to be filed an application under Section 59 of the Trusts Act (1973) (QLD) to seek directions in relation to how the differing interests of LMIM are to be represented in the proceedings and an application under Section 500 of the Corporations Act (2001) to seek leave to proceed against LMIM (which is required because it is in liquidation) (the Applications);
- The receivers for the CPAIF and ICPAIF (Grant Thornton) advised they would not consent to my Section 59 application unless orders are made:
 - that their reasonable costs and fees be fixed by the Court and paid out of the FMIF up to them preparing and filing a defence and considering any Reply filed by me;
 - that I disclose to them certain books and records as requested by them.
- The parties consented to adjourn the hearing of the Applications (which was originally set down on 8 December 2017) to a date to be fixed.

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

- A Commercial List Application and Statement was filed with the Court on 23 April 2018
- On 24 April 2018 the Court proposed that the Commercial List Application and the leave to proceed application be listed for hearing on 29 May 2018.
- At the hearing on 29 May 2018, the Court indicated it was content for:
 - The proceeding to be placed on the Commercial List; and
 - That the proceeding be referred to mediation.
- However, the Court noted that the final form of the orders to be issued by it would be required to take into account how the individual members of the Feeder Funds were to be notified of the proceeding and with that, given the opportunity to apply to the Court to be heard in the proceeding or represented in the mediation.
- Following the hearing on 29 May 2018, the draft orders were circulated by my solicitors and agreed to. The matter was then re-listed for a hearing on 13 June 2018 in order for the final form of the Orders to be reviewed by the Court.
- On 13 June 2018, the Court made Orders including the following:
 - The proceeding be placed on the Commercial List;
 - The plaintiff has leave to proceed pursuant to Section 500(2) of the Corporations Act 2001 to proceed against LMIM in liquidation;
 - How the differing interests of LMIM are to be represented pursuant to section 59 of the Trusts Act 1973 (QLD);

- That The Trust Company Limited ACN 004 027 749 as custodian of the property of the LM WMIF (second defendant) is joined to the proceeding, as the fifth defendant;
- The plaintiff has leave to file and serve a Further Amended Claim;
- FTI are to provide a complete and up to date copy of the registers of members of the CPAIF and ICPAIF to the Receivers for the CPAIF and ICPAIF (Grant Thornton) and to me, by 22 June 2018. This has been done;
- The plaintiff is to provide the Receivers for the CPAIF and ICPAIF (Grant Thornton) and the RE of the WMIF (Trilogy) specified categories of documentation, by 29 June 2009;
- The plaintiff and FTI are required to give notice to members of the CPAIF and the ICPAIF of this proceeding, the Further Amended Claim, the Second Further Amended Statement of Claim and the form of notice attached to the Orders issued by the Court. This has been done;
- The plaintiff is required to give notice to all members of the CPAIF and ICPAIF of further documents filed in these proceedings by posting the documents to www.lmfimf.com;
- The parties are directed to attend a mediation to be completed by 28 September 2018.

In summary 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 are 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.

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

2.7 Liquidators of LMIM (FTI Consulting)

2.7.1 Remuneration claim

As advised in my previous reports to investors, the orders handed down in relation to FTI's ongoing role and extent of their powers and responsibilities 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.

The judgement regarding FTI's remuneration and orders made in relation to FTI's remuneration claim and indemnity claim are available on the websites www.lmfimf.com and www.lminvestmentadministration.com.

As the judgement had been handed down, I requested FTI to provide details of any additional remuneration and costs incurred subsequent to the remuneration claimed in the above mentioned court application.

FTI has informed me that for the period since late 2015 and up to 30 April 2018 they have incurred additional remuneration and expenses of \$363,929 plus GST. FTI have advised that they propose to make application to the court for the approval of the remuneration shortly.

FTI have provided me with these figures so that the Fund may properly record the expenses in the management accounts and provide an updated estimated return to investors. I have yet to receive details of these amounts claimed and FTI have advised these amounts are subject to change based on the formulation of its application for court approval.

Discussions with FTI have been ongoing, however no further formal steps in the proceeding have been taken since my last report to investors.

2.7.2 Proof of debt process

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 Court 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.

Following agreement with FTI as to the proposed amendment to the court order which will be submitted to the court for approval, I am hopeful that this process can be undertaken in the near future so the quantum of any creditor claims against the Fund can be ascertained and dealt with as soon as possible. These claims may be subject to the “clear accounts rule” as described in previous reports to investors, and if so, a set off against that claim may be able to be made.

2.7.3 Claim filed against LMIM

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

- In November 2016, I caused LMIM as RE of the FMIF to commence a proceeding against LMIM in relation to certain transactions to avoid possible expiry of the statutory limitation periods for making the claims;
- This claim 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;
 - 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;
- Following further investigations, an amended claim and statement of claim and consolidated particulars have been filed and served on LMIM;
 - Steps have been taken to prepare an application under Section 59 of the Trusts Act (1973) (QLD) for directions of the Court in relation 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 (the Applications) and supporting Affidavits.

Since my last report to investors, further work has been undertaken to quantify the claim for lost interest on the pre-paid management fees, and further instructions have been provided to Counsel to enable affidavit material in support of the directions application to be settled.

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.

3. Management Accounts

As advised in my previous report, the management accounts for the half year ending 31 December 2017 are available on the website www.lmfimif.com.

The management accounts for the year ending 30 June 2018 will be uploaded to the website www.lmfimif.com by 30 September 2018.

4. Investor Information

4.1 Estimated Return to Investors

I provide an estimated return to Investors of between 13.0 cents and 14.2 cents per unit as at 31 May 2018, calculated as follows:

Description	\$ Low	\$ High
Cash at bank	70,209,210	70,209,201
Other assets (interest receivable, foreign currency accounts and amount for security for litigation costs)	350,848	1,389,677
Estimated Assets Position	70,560,058	71,598,888
<i>Less:</i>		
Other unsecured creditors (includes remuneration approved but not paid)	7,230,339	2,501,274
FTI Fees & legal expenses advised (subject to approval) - refer to Section 2.7 for further details - maximum amount shown	694,756	694,756
Receivers and Managers' fees (DB Receivers)	75,262	75,262
Receiver's fees & outlays (BDO) (including controllerships)	246,103	246,103
Receiver's legal fees (BDO)	274,627	274,627
Total Liabilities	8,521,088	3,792,023
Estimated net amount available to investors as at 31 May 2018	62,038,970	67,806,865
Total investor units (as at 31 December 2016)	478,100,386	478,100,386
Estimated return in the dollar	0.130	0.142

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. Should the claims against the Feeder Funds be successful this would materially affect the return to the Feeder Funds (negatively) and other investors (positively).

In calculating the estimated return to investors, I have also not provided any provision for the claim filed by the MPF Trustee with respect to the AIIS loan 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 brought to a conclusion shortly.



4.2 Investments made in Foreign Currencies

Investigations undertaken by BDO have identified that the number of units held by investors who invested in foreign currencies appears to be incorrectly recorded in the membership records of the FMIF.

It appears that when LMIM transferred the member records of the FMIF to a new database in 2010 the number of units of investors who invested in a foreign currency were incorrectly recorded in the new database, by allocating to the investors concerned one unit in the FMIF for each unit of foreign currency invested, rather than one unit in the FMIF for each \$1AUD invested (after the foreign currency amount invested had been converted to AUD at the applicable exchange rate) in accordance with the PDS and Constitution.

I am currently calculating the effect of these errors on each of the foreign currency investors and intend applying to court seeking orders to rectify the register of members before 30 September 2018.

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

Prior to making the application to court, I will require to correct the members register for the foreign currency investors and resolve the proceedings against the Feeder Funds and where a mediation is to be held by 28 September 2018.

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 by 30 September 2018.

4.5 Investors Queries

For any changes to investors details, please review the Useful Forms/Procedures tab on the website www.lmfimif.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@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

5. Receiver's Remuneration and Expenses

There have been nine applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2018.

The ninth application for the approval of my remuneration for the period 1 November 2017 to 30 April 2018 was heard on 21 June 2018. The Court ordered that my remuneration for this period be fixed in the amount of \$1,041,907.90 (inclusive of GST). In addition, the Court approved my remuneration sought of \$22,306.90 (inclusive of GST) in respect of work undertaken on the controllerships.

A copy of all documentation in relation to my applications can be found on the website www.lmfmif.com.

In addition to the remuneration previously approved by the Court and the ninth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$227,274.50 plus outlays of \$1,203.66 plus GST from 1 May 2018 to 31 May 2018 plus work undertaken in respect of the controllerships for the retirement village assets of \$7,027.50 plus GST as detailed in the table below and attached summaries.

Remuneration incurred for May 2018	Remuneration \$ (GST excl.)	Outlays \$ (GST excl.)
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	227,274.50	1,203.66
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	2,102.00	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	-	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	4,081.00	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd	569.50	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	133.50	-

Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	141.50	-
Total	234,302.00	1,203.66

The key matters addressed during the period 1 May 2018 to 31 May 2018 were:

- Work undertaken in relation to the litigation matters detailed in Sections 2, which among other things, include:
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits.;
 - Providing assistance to the Liquidator of Bellpac regarding the \$8M bond claim including progressing the settlement with WCL;
 - Progressing the claim against the MPF and others;
 - Progressing the claim against the Feeder Funds in relation to redemptions and distributions paid to Class B unitholders;
 - Progressing claims against guarantors;
 - Negotiations with FTI to resolve various outstanding issues relating to FTI's proceedings and the winding up of the FMIF;;
 - Progressing the claim against LMIM;
 - Dealing with the proceedings by the Trustee of the MPF against LMIM in which relief is sought against assets of the Fund.
- Liaising with various parties in relation to the potential for the DB Receiver's retirement;
- 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;
- Progressing the investigation of the AX files to determine the alternatives to resolving the incorrect conversion of foreign investors units into AX;
- Preparing affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 November 2017 to 30 April 2018; and
- Finalising outstanding residual matters from the sale of five retirement villages, including tax compliance issues.

6. 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 sincerely

A handwritten signature in black ink, appearing to be 'David Whyte', written in a cursive style.

David Whyte

Receiver



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018
LM First Mortgage Income Fund (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area									
					Assets		Creditors		Trade On		Investigations		Administration	
			hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	580	60.1	34,858.00	30.0	17,400.00	8.0	4,640.00	2.2	1,276.00			19.9	11,542.00
Clark Jarrold	Partner	580	71.1	41,238.00	71.1	41,238.00								
Gerry Collins	Consultant	580	0.9	522.00	0.9	522.00								
Craig Jenkins	Partner	515	3.6	1,854.00	3.6	1,854.00								
Arthur Taylor	Senior Manager	470	153.0	71,910.00	83.2	39,104.00	2.4	1,128.00	3.8	1,786.00			63.6	29,892.00
Samuel Alexander	Manager	450	0.6	270.00					0.6	270.00				
Chris Demeyere	Manager	430	0.3	129.00	0.3	129.00								
Julie Pagcu	Senior Manager	400	79.6	31,840.00	79.6	31,840.00								
Ainsley Watt	Senior Accountant I	350	64.6	22,610.00	15.9	5,565.00	23.8	8,330.00	2.8	980.00	7.2	2,520.00	14.9	5,215.00
Antoinette Fielding	Accountant II	215	26.5	5,697.50			26.0	5,590.00			0.5	107.50		
George Lethbridge	Undergraduate	175	30.1	5,267.50			25.2	4,410.00			2.7	472.50	2.2	385.00
Ryan Whyte	Undergraduate	175	56.9	9,957.50	3.6	630.00	26.5	4,637.50	1.3	227.50	16.2	2,835.00	9.3	1,627.50
Moira Hattingh	Team Assistant	95	11.8	1,121.00									11.8	1,121.00
TOTALS			559.1	227,274.50	288.2	138,282.00	111.9	28,735.50	10.7	4,539.50	26.6	5,935.00	121.7	49,782.50
			GST	22,727.45										
			TOTAL INC GST	250,001.95										
AVERAGE HOURLY RATE			407		480		257		424		223		409	

Note: All amounts exclude GST unless otherwise noted



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Disbursements for the period 1 May 2018 to 31 May 2018

LM First Mortgage Income Fund (Receivers & Managers Appointed)

Expense Type	Amount (\$ ex GST)
Airfares	444.66
Search Fee	751.81
Postage	7.19
TOTAL	1,203.66
GST	120.37
TOTAL INC GST	1,324.03



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018
Bridgewater Lake Estate Pty Limited (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
Leisa Rafter	Partner	680	0.3	204.00	0.3	204.00		
David Whyte	Partner	580	0.1	58.00	0.1	58.00		
Samuel Alexander	Manager	450	1.1	495.00	1.1	495.00		
Ainsley Watt	Senior Accountant I	350	4.1	1,435.00	1.1	385.00	3.0	1,050.00
Reuben Tham	Senior Consultant II	280	3.9	1,092.00	3.9	1,092.00		
George Lethbridge	Undergraduate	175	4.5	787.50			4.5	787.50
Maira Hattingh	Team Assistant	95	0.1	9.50			0.1	9.50
TOTALS			14.1	4,081.00	6.5	2,234.00	7.6	1,847.00
				GST	408.10			
				TOTAL INC GST	4,489.10			
				AVERAGE HOURLY RATE	289	344	243	

Note: All amounts exclude GST unless otherwise noted



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.1	35.00	0.1	35.00
George Lethbridge	Undergraduate	175	3.0	525.00	3.0	525.00
Maira Hattingh	Team Assistant	95	0.1	9.50	0.1	9.50
TOTALS			3.2	569.50	3.2	569.50
GST				56.95		
TOTAL INC GST				626.45		
AVERAGE HOURLY RATE				178		178

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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018

OVST Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Trade On		Administration	
					hrs	\$	hrs	\$
Samuel Alexander	Manager	450	0.6	270.00	0.6	270.00		
Ainsley Watt	Senior Accountant I	350	1.2	420.00			1.2	420.00
Reuben Tham	Senior Consultant II	280	3.1	868.00	3.1	868.00		
George Lethbridge	Undergraduate	175	3.0	525.00			3.0	525.00
Moira Hattingh	Team Assistant	95	0.2	19.00			0.2	19.00
TOTALS			8.1	2,102.00	3.7	1,138.00	4.4	964.00
GST					210.20			
TOTAL INC GST					2,312.20			
AVERAGE HOURLY RATE					260	308		219

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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018
Redland Bay Leisure Life Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.2	70.00	0.2	70.00
George Lethbridge	Undergraduate	175	0.2	35.00	0.2	35.00
Moira Hattingh	Team Assistant	95	0.3	28.50	0.3	28.50
TOTALS			0.7	133.50	0.7	133.50
GST				13.35		
TOTAL INC GST				146.85		
AVERAGE HOURLY RATE				191		191

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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018
Redland Bay Leisure Life Development Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	
					hrs	\$
Ainsley Watt	Senior Accountant I	350	0.2	70.00	0.2	70.00
George Lethbridge	Undergraduate	175	0.3	52.50	0.3	52.50
Maira Hattingh	Team Assistant	95	0.2	19.00	0.2	19.00
TOTALS			0.7	141.50	0.7	141.50
GST				14.15		
TOTAL INC GST				155.65		
AVERAGE HOURLY RATE				202		202

Note: All amounts exclude GST unless otherwise noted