

TO THE INVESTOR AS ADDRESSED

28 September 2018

**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 23<sup>rd</sup> 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 2018 to 30 June 2018 (the Period).

On 15 March 2018 ASIC extended the exemption on financial reporting obligations of the Fund until 16 March 2020. A copy of the exemption (relief instrument) is available for viewing at [www.lmfimf.com](http://www.lmfimf.com)

## 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 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 (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.

##### 1.1.1.2 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 Trustee claimed approximately \$16.82 million as equitable compensation against LMIM and relief against the assets of the FMIF for approximately \$3.9 million being alleged interest paid by the MPF to the FMIF in respect of the loan made by the FMIF to AIIS in 2005.

The MPF Trustee applied to the Court for directions as to whether it would be justified discontinuing the proceeding, and on 7 June 2018 the Court directed it would be. A Notice of discontinuance has accordingly been filed in the proceeding.

##### 1.1.1.1 Position of the Secured Creditor

Following the discontinuance of the three proceedings brought by the MPF referred to above, the DB Receivers have advised they will retire.

#### 1.1.2 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.

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;
- A draft trial bundle of documents was served on the defendants on 1 June 2018. The proceedings were listed for review on 16 August 2018 following which a timetable was implemented to progress the proceedings to a trial in March/April 2019. Specifically, and amongst other things, it was ordered that the plaintiff serve an amended draft trial bundle by 14 September 2018 which included additional documents relevant to various matters in issue in the proceedings. This has been completed and the defendants' response is due by 5 October 2018. Following the finalisation of the contents of the trial bundle, affidavit evidence is to be exchanged by the parties along a timeline from November 2018 to February 2019 in advance of trial.

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

## 1.2 Legal Actions/Potential Recoveries

### 1.2.1 Claim against the former auditors

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

- Public examinations (PEs) of the former auditors and certain directors and former directors (Directors) of LM Investment Management Limited (In Liquidation) were 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 filed 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;
- On 29 May 2018, the Court made Orders for the filing of the proposed application to amend the Claim, as well as for the auditors to make a request for further and better particulars of the further amended statement of claim.

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

- A request for particulars was received on 19 June 2018. A further Order of the Court dated 24 July 2018 requires the response to this request to be filed and served by 19 October 2018;
- Two further amendments to the statement of claim were filed on 5 July 2018 and 7 August 2018. Particulars of loss and damage were filed and served on the auditors on 23 July 2018;
- The Application for leave to amend the Claim was filed on 10 August 2018. The Court listed the hearing of the application on 27 September 2018;
- Following the hearing on 27 September 2018, the next steps are to provide the particulars requested and obtain Orders programming the filing of the auditors' defence and the Receiver's reply to that defence.

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

### **1.2.2 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 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 remaining condition precedent (Sunset Date) to the settlement with WCL has been extended several times from the original Sunset Date and the Liquidator was successful in negotiating as part of the agreement to extend the Sunset Date that WCL pay interest at 3% p.a. from 2 October 2017 until settlement. The last agreed extension granted is to 18 October 2018 and will be reviewed subject to WCL's progress in calling the EGM and committing to the payment of \$6.3M;
- In relation to the MPF claim for reimbursement for funding as referred to above, 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.

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

### 1.2.3 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);
- On 28 July 2017, I caused to be filed an amended statement of claim against LMIM and the Feeder Funds which 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 on the final winding up of 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;
- 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 Applications 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
  - 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, 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 orders were made granting the orders sought in the Applications and the Commercial List Application including that I represent the interests of the LM First Mortgage Income Fund in the proceedings and that the ICPAIF and the CPAIF be represented by Mr Said Jahani of Grant Thornton. The interests of LMIM are to be represented by Mr John Park of FTI Consulting. Further, it was ordered that mediation between the parties take place prior to 28 September 2018;

Since my previous update to investors and following discussions between the parties, it was determined that the parties did not have mutual availability prior to 28 September 2018 to attend mediation. Accordingly, amended orders were made by his Honour Justice Jackson on 4 September 2018 providing for a two day mediation to take place on 5 and 6 November 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; and
- 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.

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

#### 1.2.4 Various claims against guarantors

Background in relation to these claims, and developments since my last report to investors are as include:

- Judgement was obtained against the guarantor that defaulted on a payment obligation in a deed of settlement entered into with him. As the guarantor failed to pay the judgement, bankruptcy proceedings are being pursued;
- I received a report from the trustee of a bankrupt guarantor that his investigations have identified potential recoveries for the benefit of creditors of which the Fund is the major creditor. I continue to liaise with the trustee in regard to his continuing investigations and negotiations with certain of the parties involved in the land development, the proceeds of which we are informed the bankrupt has an entitlement.

#### 1.2.5 Liquidators of LMIM (FTI Consulting)

##### 1.2.5.1 Applications by FTI for remuneration or expense approval

I refer to my previous reports to investors.

The orders handed down on 17 December 2015 in relation to FTI's ongoing role and extent of their powers and responsibilities set out, amongst other things, the process for FTI to identify and notify me of claims by LMIM for indemnity from the FMIF for liabilities or expenses incurred by LMIM or its Liquidators in connection with LMIM acting as RE of the FMIF, and for me to adjudicate on any such claims made by LMIM for indemnity against the property of the FMIF.

The judgement regarding and orders made in relation to FTI's first remuneration claim and indemnity claim are available on the websites [www.lmfimf.com](http://www.lmfimf.com) and [www.lminvestmentadministration.com](http://www.lminvestmentadministration.com).

On 17 July 2018, Mr Park of FTI, who is now the sole Liquidator of LMIM, filed an application in the Court seeking payment of remuneration of approximately \$743,889.89 inclusive of GST from property of the FMIF, relating to various periods between 19 March 2013 and 30 June 2018. I opposed certain parts of the application. The application was heard on 6 September 2018 and adjourned to 3 October 2018.

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

##### 1.2.5.2 Indemnity claim against the Fund and 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 of 17 December 2015 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.

I understand that FTI are currently undertaking the proof of debt process.

I am hopeful that the process required by the 17 December 2015 orders can be completed 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 available.

#### 1.2.5.3 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;
- I applied to Court for directions under section 59 of the Trusts Act (1973) (QLD) 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, for leave to proceed under Section 500 of the Corporations Act and a stay of the proceeding until further order.

On 25 July 2018, the Court directed that I represent the interests of LMIM as RE of the FMIF, that Mr Park represent the interests of LMIM in its own capacity, granted leave to proceed with this claim and



ordered that the claim be stayed until further order. A stay of the proceeding was sought because the extent to which it is necessary to proceed with the claims made in the proceeding will not be clear until after the proof of debt process is completed.

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 status of this claim.

## 2. Financial Position of the Fund

The management accounts for the year ending 30 June 2018 are available on the website [www.lmfimf.com](http://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 2018 is provided below.

Description	30 June 2018
<b>ASSETS</b>	<b>\$</b>
Cash and cash equivalents	70,194,328
Receivables	469,030
Loans & Receivables	44,235
<b>TOTAL ASSETS</b>	<b>70,707,593</b>
<b>LIABILITIES</b>	
Payables	2,451,143
Distributions payable	1,372,036
<b>Total liabilities excluding net assets attributable to unitholders</b>	<b>3,823,179</b>
<b>NET ASSETS</b>	<b>66,884,414</b>

These figures are subject to the disclaimers and qualifications set out in the management accounts

### 2.1 Fund Assets

The total assets of the Fund as at 30 June 2018 were \$70,707,593.

The balance includes cash at bank of \$70,194,328, interest receivable on term deposits of \$469,030 and net default loans of \$44,235.

### 2.2 Fund Liabilities

The total liabilities of the Fund as at 30 June 2018 were \$3,823,179.

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 2018.

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

### 2.3 Net Assets Attributable to Unit Holders

Net assets attributable to unit holders as at 30 June 2018 were \$66,884,414.

The net assets of the Fund and number of units on issue as at 30 June 2018 and 31 December 2017 is detailed in the table below.

Description	30 June 2018	31 December 2017
Estimated net amount of assets available to investors as at period end (\$)	66,884,414	68,242,091
Total investor units (# of units)	478,100,386	478,100,386
Estimated net asset amount per unit available to investors as at period end	14 cents	14.3 cents

### 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 am considering the options available to correct the register in a time and cost efficient manner.

### 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 2018 to 30 June 2018 is summarised in the table below.

Description	\$
<b>Receipts</b>	
Loan Reductions	1,724,179.36
Interest	692,886.63
GST received	122,614.32
Other income/refunds received	4,350.18
<b>Total receipts</b>	<b>2,544,030.49</b>
<b>Payments</b>	
Bank charges	23.30
Legal fees	886,113.32
Loan draws	4,089.50
IT expenses and record management/storage	97,332.29
Receivers & Managers' Fees	212,812.60
Receivers & Managers' Disbursements	180.36
Receiver's Fees	1,064,214.80
Receiver's Disbursements	23,347.00
Other payments	2,562.14
<b>Total payments</b>	<b>2,290,675.31</b>
<b>Net receipts (payments)</b>	<b>253,355.18</b>

## 4. Investor Information

### 4.1 Estimated Return to Investors

I provide an estimated return to Investors of between 12.6 cents and 14 cents per unit as at 30 June 2018, calculated as follows:

Description	Low \$	High \$
Cash at bank	68,719,609	68,719,609
Other assets (including interest receivable)	455,478	2,007,201
<b>Estimated Assets Position</b>	<b>69,175,087</b>	<b>70,726,810</b>
Other unsecured creditors	6,470,833	1,741,768
FTI Fees & legal expenses advised (subject to approval)- refer to Section 1.3.9 for further details - maximum amount shown	918,458	918,458
Receivers and Managers' fees (DB Receivers)	129,106	129,106
Receiver's fees & outlays (BDO) (including controllerships)	1,217,601	1,217,601
<b>Total Liabilities</b>	<b>8,735,998</b>	<b>4,006,933</b>
<b>Estimated net amount available to investors as at 30 June 2018</b>	<b>60,439,089</b>	<b>66,719,877</b>
Total investor units (as at 30 June 2018)	478,100,386	478,100,386
<b>Estimated return in the dollar</b>	<b>12.6 cents</b>	<b>14 cents</b>

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 made any provision for any successful claims made against the FMIF.

#### 4.2 Estimated Unit Price as at 30 June 2018

The estimated unit price as at 30 June 2018 is 14 cents.

Description	\$
Total Value of Fund Assets as at 30 June 2018	70,707,593
Less Creditors and Other Payables	3,823,179
<b>Total Net Value of Fund Assets</b>	<b>66,884,414</b>
<b>Total Number of Units</b>	<b>478,100,386</b>
<b>Unit Price Estimate</b>	<b>14 cents</b>

I *attach* a copy of a letter confirming the unit price as at 30 June 2018, which may be forwarded to Centrelink to assist with the review of investors' pensions.

#### 4.3 Distributions to Investors

There has been significant progress made towards being able to make an interim distribution to investors with the discontinuance of three proceedings against the LMIM/FMIF by the MPF for amounts in excess of \$30M and the imminent retirement of the DB Receivers. Once the DB Receivers retire, I will have sole control over the funds held. The following further steps (including estimated timing) are required to be taken to allow an interim distribution to investors:

- Retirement of the DB Receivers (estimated within one week)
- Completion of the Proof of Debt process by FTI and identification of indemnity claims against the Fund (2 months)
- Completion of the mediation against the Feeder Funds (5 and 6 November 2018)
- Application to Court to permit an interim distributions and to correct the members register (December 2018)
- Payment of interim distribution (January 2019).

#### 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 31 December 2018.

#### 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](http://www.lmfimf.com) which includes information regarding the following procedures:

- Change of Contact Address/Bank Account Details
- Change of Contact Address/Bank Account 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 the Sole Survivor
- Transfer from a Deceased Estate to a Beneficiary of an Estate
- Other Transfer of Unit Holding from Existing Investor to a New Investor

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](mailto: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 nine applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2018.

A copy of all documentation in relation to my applications can be found on the website [www.lmfimf.com](http://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 \$1,092,979.50 plus outlays of \$18,725.89 plus GST from 1 May 2018 to 31 August 2018 plus work undertaken in respect of the controllerships for the retirement village assets of \$22,014.50 plus GST as detailed in the table below and attached summaries.

Remuneration incurred and unpaid	Remuneration \$ (GST excl.)	Outlays \$ (GST excl.)
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	1,092,979.50	18,725.89
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	4,301.00	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	6,132.00	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	5,153.00	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd	1,610.50	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	2,998.50	-
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	1,819.50	-
<b>Total</b>	<b>1,114,994.00</b>	<b>18,725.89</b>

I anticipate that my next application to Court for the approval of my remuneration will be made in November 2018 covering the period 1 May 2018 to 31 October 2018. The controllership appointments have now been completed. A copy of my application in this respect will be posted to the website [www.lmfimf.com](http://www.lmfimf.com) and investors will be notified when this application has been lodged.

## 5.1 Actions taken during the Period

I provide below a summary of actions taken during the period from 1 January to 30 June 2018:

- Work undertaken in relation to the litigation matters detailed at Section 1.1 and 1.2 of this report, which include, among other things:
  - taking steps to procure the discontinuance of the proceedings by the Trustee of the MPF against LMIM and the Fund. See Sections 1.1.1.1 Assigned Loans and Section 1.1.1.2 AIIIS Loan Claim. The Assigned Loans claims were discontinued in June 2018 and the AIIIS claims discontinued in August 2018;
  - Liaising with various parties in relation to the DB Receiver's retirement;
  - 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 1.2.1 above;
  - Progressing the Feeder Fund claim including obtaining directions for a mediation to be held, which is currently scheduled to take place on 5 and 6 November 2018. See Section 1.2.3 above;
  - Progressing preparation of an application to Court for directions and leave to proceed in respect of the proceedings against LMIM, and a stay of the proceeding until further order, which was granted on 25 July 2018. See Section 1.2.5.3 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 1.2.2 above;
- Progressing the claim against the MPF and others with a trial set for March/April 2019. See Section 1.1.2;
- Progressing claims against guarantors. See Section 1.2.4 above.
- Maintaining the management accounts of the Fund and preparing the management accounts for the half year ending 31 December 2017 and year ending 30 June 2018;
- 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 2018 to 30 April 2018;
- Finalising outstanding matters from the sale of five retirement villages, including tax compliance issues;
- Further investigations into the migration of the Composer investor management database to the AX investor management databases;
- Attending to compliance with the conditions of 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; and
- Preparation of update reports to investors in March and June 2018.

## 5.2 Actions required to complete the winding up

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;
- 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;
- Finalise all claims against guarantors;
- Resolve or have determined FTI's indemnity claims against the Fund;
- Maintain the accounts of the Fund and prepare management accounts;
- 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 the retirement of the DB receivers and obtaining the necessary approvals from the Court, process an interim distribution 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 *inter alia*, progress of the outstanding legal actions.

### 5.3 Actions required to complete the winding up

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

- Finalise all litigation currently on foot and contemplated;
- Resolve or have determined FTI's further remuneration or indemnity 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.

### 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](mailto:enquiries@lmfmif.com)

Yours sincerely



David Whyte  
Receiver



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

Employee	Position	Rate	Totals		Task Area									
			hrs	\$	Assets		Creditors		Trade On		Investigations		Administration	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
Leisa Rafter	Partner	710	0.4	284.00					0.4	284.00				
Clark Jarrod	Partner	595	352.2	209,559.00	352.2	209,559.00								
David Whyte	Partner	595	83.4	49,623.00	31.9	18,980.50	8.8	5,236.00	42.1	25,049.50			0.6	357.00
Clark Jarrod	Partner	580	130.6	75,748.00	130.6	75,748.00								
David Whyte	Partner	580	85.3	49,474.00	42.7	24,766.00	12.8	7,424.00	5.3	3,074.00			24.5	14,210.00
Gerry Collins	Consultant	580	0.9	522.00	0.9	522.00								
Mark Whittaker	Partner	570	3.0	1,710.00	3.0	1,710.00								
John Garrard	Senior Manager	565	0.9	508.50					0.9	508.50				
Craig Jenkins	Partner	515	30.2	15,553.00	30.2	15,553.00								
Charles Haines	Associate Director	510	1.7	867.00							1.7	867.00		
Alastair Raphael	Senior Manager	485	1.3	630.50			1.3	630.50						
Arthur Taylor	Senior Manager	485	285.1	138,273.50	282.4	136,964.00	1.5	727.50	1.2	582.00				
Arthur Taylor	Senior Manager	470	258.8	121,636.00	169.8	79,806.00	4.8	2,256.00	4.1	1,927.00			80.1	37,647.00
Samuel Alexander	Senior Manager	450	2.7	1,215.00					2.7	1,215.00				
Chris Demeyere	Manager	445	5.8	2,581.00	5.8	2,581.00								
Michael Dharmaratne	Manager	445	26.2	11,659.00	26.2	11,659.00								
Chris Demeyere	Manager	430	1.5	645.00	1.5	645.00								
Julie Pagcu	Associate Director	430	264.8	113,864.00	264.8	113,864.00								
Julie Pagcu	Associate Director	400	152.8	61,120.00	152.8	61,120.00								
Ainsley Watt	Senior Accountant - Exp	360	166.1	59,796.00	50.0	18,000.00	65.7	23,652.00	39.5	14,220.00			10.9	3,924.00
Ainsley Watt	Senior Accountant - Exp	350	138.8	48,580.00	33.4	11,690.00	69.3	24,255.00	10.0	3,500.00	7.2	2,520.00	18.9	6,615.00
Reuben Tham	Senior Consultant	295	2.2	649.00					2.2	649.00				
Antoinette Fielding	Graduate Accountant	220	77.0	16,940.00			62.4	13,728.00			14.4	3,168.00	0.2	44.00
Eloise Carroll	Graduate Accountant	220	53.8	11,836.00	3.0	660.00	41.6	9,152.00	4.0	880.00			5.2	1,144.00
George Lethbridge	Graduate Accountant	220	72.5	15,950.00	37.4	8,228.00	29.7	6,534.00			1.3	286.00	4.1	902.00
Sarah Cunningham	Accounting Assistant	220	1.3	286.00									1.3	286.00
Antoinette Fielding	Graduate Accountant	215	61.8	13,287.00	1.1	236.50	58.1	12,491.50			2.6	559.00		
Eloise Carroll	Graduate Accountant	215	30.4	6,536.00			30.4	6,536.00						
Ryan Whyte	Undergraduate	180	91.9	16,542.00	45.7	8,226.00	43.6	7,848.00			1.0	180.00	1.6	288.00
George Lethbridge	Graduate Accountant	175	92.7	16,222.50	26.3	4,602.50	53.7	9,397.50			4.7	822.50	8.0	1,400.00
Ryan Whyte	Undergraduate	175	75.7	13,247.50	5.7	997.50	37.6	6,580.00	1.3	227.50	18.4	3,220.00	12.7	2,222.50
Brooke Streidl	Practice Assistant	130	4.3	559.00	4.3	559.00								
Julia Rose	Practice Assistant	130	88.9	11,557.00	88.9	11,557.00								
Leah Clark	Practice Assistant	130	3.0	390.00	3.0	390.00								
Tanya Bennett	Practice Assistant	130	11.0	1,430.00	11.0	1,430.00								
Moira Hattingh	Practice Assistant	100	19.7	1,970.00									19.7	1,970.00
Moira Hattingh	Practice Assistant	95	18.2	1,729.00									18.2	1,729.00
TOTALS			2,696.9	1,092,979.50	1,804.6	820,054.00	521.3	136,448.00	113.7	52,116.50	51.3	11,622.50	206.0	72,738.50
GST				109,297.95										
TOTAL INC GST				1,202,277.45										
AVERAGE HOURLY RATE			405		454		262		458		227		353	

Note: All amounts exclude GST unless otherwise noted



Disbursements for the period 1 May 2018 to 31 August 2018

**LM First Mortgage Income Fund (Receivers & Managers Appointed)**

Expense Type	Amount (\$ ex GST)
Airfares	444.66
Search Fee	982.54
Postage	14,862.80
Taxi fares	147.02
Courier	76.77
Printing	317.10
IT Expenses	1,895.00
<b>TOTAL</b>	<b>18,725.89</b>
<b>GST</b>	<b>1,872.59</b>
<b>TOTAL INC GST</b>	<b>20,598.48</b>



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 August 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	Senior Manager	450	1.1	495.00	1.1	495.00		
Ainsley Watt	Senior Accountant - Experienced	360	0.9	324.00	0.2	72.00	0.7	252.00
Ainsley Watt	Senior Accountant - Experienced	350	4.1	1,435.00	1.1	385.00	3.0	1,050.00
Reuben Tham	Senior Consultant	280	3.9	1,092.00	3.9	1,092.00		
George Lethbridge	Graduate Accountant	220	2.3	506.00			2.3	506.00
Eloise Carroll	Graduate Accountant	220	1.1	242.00	0.5	110.00	0.6	132.00
George Lethbridge	Graduate Accountant	175	4.5	787.50			4.5	787.50
Moira Hattingh	Practice Assistant	95	0.1	9.50			0.1	9.50
<b>TOTALS</b>			<b>18.4</b>	<b>5,153.00</b>	<b>7.2</b>	<b>2,416.00</b>	<b>11.2</b>	<b>2,737.00</b>
			GST	515.30				
			TOTAL INC GST	5,668.30				
			AVERAGE HOURLY RATE	280	336		244	

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



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

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant - Experienced	360	0.9	324.00	0.2	72.00	0.7	252.00
Ainsley Watt	Senior Accountant - Experienced	350	0.1	35.00			0.1	35.00
George Lethbridge	Graduate Accountant	220	2.1	462.00			2.1	462.00
Eloise Carroll	Graduate Accountant	220	1.0	220.00	0.3	66.00	0.7	154.00
George Lethbridge	Graduate Accountant	175	3.0	525.00			3.0	525.00
Ashley Richardson	Administration Assistant	175	0.2	35.00			0.2	35.00
Moira Hattingh	Practice Assistant	95	0.1	9.50			0.1	9.50
<b>TOTALS</b>			<b>7.4</b>	<b>1,610.50</b>	<b>0.5</b>	<b>138.00</b>	<b>6.9</b>	<b>1,472.50</b>
				GST	161.05			
				TOTAL INC GST	1,771.55			
				AVERAGE HOURLY RATE	218	276	213	

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



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 August 2018**  
**OVST Pty Ltd (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		
Samuel Alexander	Senior Manager	450	1.9	855.00	1.9	855.00		
Ainsley Watt	Senior Accountant - Experienced	360	0.9	324.00	0.2	72.00	0.7	252.00
Ainsley Watt	Senior Accountant - Experienced	350	1.6	560.00			1.6	560.00
Reuben Tham	Senior Consultant	280	3.1	868.00	3.1	868.00		
George Lethbridge	Graduate Accountant	220	2.6	572.00			2.6	572.00
Eloise Carroll	Graduate Accountant	220	1.7	374.00	0.1	22.00	1.6	352.00
George Lethbridge	Graduate Accountant	175	3.0	525.00			3.0	525.00
Moirra Hattingh	Practice Assistant	95	0.2	19.00			0.2	19.00
<b>TOTALS</b>			<b>15.3</b>	<b>4,301.00</b>	<b>5.6</b>	<b>2,021.00</b>	<b>9.7</b>	<b>2,280.00</b>
			GST	430.10				
			TOTAL INC GST	4,731.10				
			AVERAGE HOURLY RATE	281	361		235	

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





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

Pinevale Villas Morayfield Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
Angie Hicks	Partner	710	1.3	923.00	1.3	923.00		
Ainsley Watt	Senior Accountant - Experienced	360	3.0	1,080.00	0.3	108.00	2.7	972.00
Reuben Tham	Senior Consultant	295	1.8	531.00	1.8	531.00		
George Lethbridge	Graduate Accountant	220	4.0	880.00			4.0	880.00
Sarah Cunningham	Accounting Assistant	220	1.9	418.00			1.9	418.00
Jessica Fuller	Graduate Consultant	200	11.5	2,300.00	11.5	2,300.00		
TOTALS			23.5	6,132.00	14.9	3,862.00	8.6	2,270.00
				GST	613.20			
				TOTAL INC GST	6,745.20			
				AVERAGE HOURLY RATE	261	259	264	

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



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

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
Leisa Rafter	Partner	710	0.8	568.00	0.8	568.00		
John Garrard	Senior Manager	565	0.3	169.50	0.3	169.50		
Susan Rix	Partner	520	0.3	156.00			0.3	156.00
Ainsley Watt	Senior Accountant - Experienced	360	0.8	288.00			0.8	288.00
Ainsley Watt	Senior Accountant - Experienced	350	0.2	70.00			0.2	70.00
George Lethbridge	Graduate Accountant	220	6.0	1,320.00			6.0	1,320.00
Eloise Carroll	Graduate Accountant	220	1.2	264.00	0.8	176.00	0.4	88.00
Ryan Whyte	Undergraduate	180	0.1	18.00			0.1	18.00
George Lethbridge	Graduate Accountant	175	0.2	35.00			0.2	35.00
Ashley Richardson	Administration Assistant	175	0.2	35.00			0.2	35.00
Cristen Glockling	Practice Assistant	155	0.3	46.50	0.3	46.50		
Maira Hattingh	Practice Assistant	95	0.3	28.50			0.3	28.50
<b>TOTALS</b>			<b>10.7</b>	<b>2,998.50</b>	<b>2.2</b>	<b>960.00</b>	<b>8.5</b>	<b>2,038.50</b>
			GST	299.85				
			<b>TOTAL INC GST</b>	<b>3,298.35</b>				
			<b>AVERAGE HOURLY RATE</b>	<b>280</b>	<b>436</b>		<b>240</b>	

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



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

Employee	Position	Rate	Totals		Task Area			
					Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant - Experienced	360	0.8	288.00			0.8	288.00
Ainsley Watt	Senior Accountant - Experienced	350	0.2	70.00			0.2	70.00
George Lethbridge	Graduate Accountant	220	3.2	704.00	0.7	154.00	2.5	550.00
Eloise Carroll	Graduate Accountant	220	1.3	286.00			1.3	286.00
Jessica Fuller	Graduate Consultant	200	2.0	400.00	2.0	400.00		
George Lethbridge	Graduate Accountant	175	0.3	52.50			0.3	52.50
Moira Hattingh	Practice Assistant	95	0.2	19.00			0.2	19.00
<b>TOTALS</b>			<b>8.0</b>	<b>1,819.50</b>	<b>2.7</b>	<b>554.00</b>	<b>5.3</b>	<b>1,265.50</b>
				GST	181.95			
				TOTAL INC GST	2,001.45			
				AVERAGE HOURLY RATE	227	205	239	

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

28 September 2018

**TO WHOM IT MAY CONCERN**

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

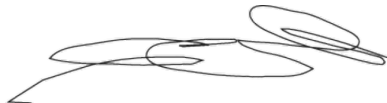
I refer to my appointment as the Receiver of the Fund's assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution by Order of the Supreme Court of Queensland on 8 August 2013.

I provide an update on the estimated unit price of the fund as at 30 June 2018, calculated as follows:

Description	\$
Total Value of Fund Assets as at 30 June 2018 (net of land tax and rates)	70,707,593
Less Creditors and Other Payables	3,823,179
<b>Total Net Value of Fund Assets</b>	<b>66,884,414</b>
<b>Total Number of Units</b>	<b>478,100,386</b>
<b>Unit Price Estimate</b>	<b>14 cents</b>

Should you have any queries in respect of the above, please contact my office on (07) 3237 5999 or enquiries@lmfmif.com.au.

Yours sincerely,



David Whyte  
Receiver