

TO THE INVESTOR AS ADDRESSED

20 December 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 24th update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 28 September 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 this year in the winding up of the FMIF, in the following respects:

- The three substantial claims made by the MPF against the Fund's assets have been discontinued (refer section 2.1);
- The Secured Creditor, Deutsche Bank, retired the Receivers and Managers, McGrath Nicol, on 10 December 2018, and subject to any directions made by the Court, I intend to apply to the Court for approval to make an interim distribution to investors early next year;
- The Feeder Funds claim was successfully mediated, and a Deed of Settlement has been agreed and signed by all parties thereto (refer section 2.6);
- The claim against LMIM, certain directors of LMIM and the MPF has been listed for a trial to take place commencing 1 April 2019, over two weeks (refer section 2.3);
- The parties to the claim against the former auditors have agreed to attend and participate in a mediation to be held on 4 and 5 March 2019 (refer to section 2.4).

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

- Cash at bank as at 30 November 2018 was \$72.1 million;
- The estimated return to investors is currently 12.2 to 13.4 cents per unit as detailed at Section 4.1 below and before taking into account future costs and recoveries from legal proceedings on foot;
- Settlement of the Bellpac Liquidator's \$8M Bonds litigation has progressed, however the Sunset Date for complying with the remaining condition precedent has been further extended to 5 February 2019 subject to receipt of certain interim periodic payments (refer section 2.5).

- A Second Remuneration Application filed on 17 July 2018 by FTI sought \$743,889.89 from the property of the FMIF. I opposed certain parts of the application. The application was heard on 6 September 2018 and 3 October 2018, and judgement was reserved (refer section 2.8.2);
- I understand FTI are currently undertaking the proof of debt process required by the orders made on 17 December 2015 and I am hopeful this can be completed in the near future. A set-off against any claims that may be made by LMIM for indemnity from the FMIF with respect to proofs of debt lodged in the liquidation of LMIM may be available (refer section 2.8.3);
- A further application was filed on 10 October 2018 by FTI seeking directions in relation to the dual appointment of Mr Park (FTI) and myself in relation to winding up the FMIF. The application was heard on 10 December 2018 and judgement reserved (refer section 2.8.4);
- The LMM claim remains stayed (refer section 2.8.5).

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.

Cost orders were made against the plaintiff upon discontinuance of the proceeding, which I am taking steps to recover.

2.1.2 AIFS Loan Claim

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 proceeding was discontinued by the Plaintiff on 10 August 2018.

2.2 Position of the Secured Creditor

The Secured Creditor (Deutsche Bank) retired the Receivers and Managers (McGrathNicol) on 10 December 2018, and subject to any directions made by the Court, I intend to apply to the Court for approval to make an interim distribution to investors early next year.

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.

As previously advised, I am now progressing these proceedings to trial which is to be held over two weeks commencing on 1 April 2019.

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

- The matter was reviewed by the Court on 14 December 2018, where directions were made for the further progression of the matter including:
 - I am to file an application for leave to amend the statement of claim by 21 December 2018, with the application to be heard on 1 February 2019;
 - The defendants must file their material in regard to the application for leave to amend the statement of claim by 25 January 2019;
 - The proceeding is set down for a 2-week trial from 1 April 2019;
 - By 15 February 2019, I am to provide the defendants with an updated trial bundle index of agreed documents and a bundle of documents to which objection is taken;
 - By 1 March 2019, the defendants must deliver their bundles of agreed documents and bundle of documents to which objection is taken;
 - By 8 March 2019, I am to deliver affidavits, witness summaries (as required) and a draft trial bundle;
 - By 15 March 2019, the defendants are to deliver affidavits, witness summaries (as required) and any suggested amendments to the draft trial plan;
 - By 22 March 2019, I am to deliver any further affidavits and witness summaries.
- The application for leave to amend the statement of claim is listed for hearing on 1 February 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.
- 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.
- An extensive request for particulars amounting to over 400 separate requests for further information and documents was received on 19 June 2018. Given the significant amount of information to be collated and provided, including a detailed review and analysis of 23 loans over 9 reporting periods, a further Order of the Court on 24 July 2018 extended the date for preparing 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

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

- The most recent Court directions, on 13 November 2018, are that:
 - The plaintiff is to file and serve a sixth further amended statement of claim (6FASOC) by 30 November 2018. The claim was served on 30 November 2018;
 - The plaintiff is to file and serve the response to the defendants request for particulars by 30 November 2018. The response was served on 3 December 2018;
 - The parties are directed to attend, participate in a mediation on a date to be agreed by the parties and the mediator, and to be completed by 15 March 2019;
 - The proceedings are to be reviewed on 18 March 2019;
 - The position papers prepared by the parties are to be provided to the mediator 21 days before the commencement of the mediation;

- The period of the mediation is fixed at a maximum of two days and may extend beyond the period only with the authorisation of the parties.
- The parties have subsequently agreed to the mediation taking place on 4 and 5 March 2019.

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 remaining condition precedent (Sunset Date) to the settlement with WCL has been extended several times and the Liquidator was successful in negotiating, as part of the agreement to extend the Sunset Date, that WCL will pay interest at 3% p.a. from 2 October 2017 until settlement. The Liquidator recently entered into a further agreement with WCL to extend the Sunset Date to 5 February 2019, subject to receipt of certain interim periodic payments;

- 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 a further 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 were 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 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 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 2018;
 - 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.lmfimif.com;
 - The parties are directed to attend a mediation to be completed by 28 September 2018. This was subsequently extended with the mediation held on 5, 6 and 20 November 2018.

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

- The Feeder Funds claim was successfully mediated on 5, 6 and 20 November 2018, and a Deed of Settlement has been executed by all parties with the deed effective from 7 December 2018.
- The terms of the deed are confidential and contain several conditions precedent, including:
 - myself, Mr Jahani, Trilogy Funds Management Limited (“Trilogy”) and the Trust Company Limited each apply for, and obtain judicial advice to the effect that the relevant party making the application is justified in entering into and performing the deed (clauses 3.1(b), (d) and (f)). We are each obliged to apply for such judicial advice by 1 February 2019 and use best endeavours to have the application heard by 15 March 2019;

- orders are made by the Supreme Court of Queensland giving authority for an interim distribution to be made to FMIF members in the amount of at least \$30 million (clause 3.1(g)). I am obliged by the Deed to make this application by 1 February 2019 and use my best endeavours to have the application heard by 15 March 2019. I may waive this condition precedent;
 - the interim distribution, if approved is made. The time for satisfaction, non-fulfilment or waiver of this condition precedent, which is for the benefit of all parties, is three weeks after the Court delivers judgement with respect to the application for approval to make the interim distribution.
- I also note that, under the terms of the Deed certain amounts are to be retained by LMIM as responsible entity of the FMIF, or any other person administering the FMIF, from future distributions to be made to the Feeder Funds. There is agreement that the amounts to be withheld are to be phased over multiple distributions with funds still flowing to the Feeder Funds from each such distribution.
- Investors will be notified of my application to court and will be given an opportunity to be heard.

2.7 Various claims against guarantors

There are only two remaining matters that can be summarised, as follows

- A deed of settlement has been entered into with a guarantor for \$100,000 payable over the period to 1 November 2019 with \$20,000 paid to date.
- PTAL as custodian of the FMIF obtained judgment against a guarantor, for approximately \$3 million, plus interest and costs. The trustee in bankruptcy has identified potential recoveries for the benefit of creditors of which the Fund is a major creditor. I continue to liaise with the trustee in regard to his continuing investigations and negotiations with certain of the parties involved in a land development. The bankrupt, along with other parties, contributed land to a development. The land was subdivided, developed and sold, and the net proceeds of sale in the sum of approximately \$12 million is presently held in a solicitors trust account on an interim basis, protected by certain undertakings given by the solicitor holding the funds. The trustee claims an entitlement in respect of at least a portion of the funds held in the solicitors trust account however, other parties to the dispute allege that associated entities of the bankrupt are entitled to the funds. I have instructed PTAL as custodian of the FMIF to enter into a Deed of Indemnity to fund a public examination and any agreed recovery proceedings in respect of this matter.

2.8 Liquidators of LMIM (FTI Consulting)

2.8.1 Remuneration claim and expenses claim

I refer to my previous reports to investors.

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 and www.lminvestmentadministration.com.

2.8.2 Second FTI Remuneration Application

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 3 October 2018.

Judgement is reserved on the Second FTI Remuneration Application.

An update will be provided to investors in relation to this matter in my next report.

2.8.3 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 Orders made on 17 December 2015, as follows:

- FTI must notify me within 14 days of the admittance of a claim of any 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.

FTI have informed me that they are currently undertaking the proof of debt process and will notify me of any claims for indemnity made by LMIM against the FMIF, with respect to any of the proofs of debt lodged in the liquidation of LMIM, by 25 January 2019.

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.

2.8.4 Further application by FTI for directions

On 10 October 2018, Mr Park filed an application seeking directions in relation to the dual appointments of Mr Park and I to wind up the FMIF including directions to the effect that:

- My appointment continues only in relation to certain specific legal proceedings and Mr Park take responsibility for ensuring the FMIF is wound up in accordance with its Constitution;
- That Mr Park is directed to act as contradictor to the Breach of Trust Proceedings and the Feeder Fund Proceedings;

- That Mr Park and I each submit budgets of remuneration and expenses to the conclusion of the winding up, that the remuneration of the Liquidator and the Receiver be fixed or determined on the hearing of the application in the amount of 50% of the amount stated in the relevant budget and paid during the course of the winding up, with all other remuneration and expenses of the Liquidator and Receiver to be deferred and sought at the conclusion of the winding up at which time the amounts stated in the budgets can be reduced, increased or stay the same.

The application was heard on 10 December 2018. Judgement is reserved.

An update will be provided to investors in relation to this matter in my next report.

2.8.5 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;

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.

The current status of this claim is that it remains stayed until further order. 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 year ending 30 June 2018 are available on the website www.lmfimf.com.

The management accounts for the half year ending 31 December 2018 will be uploaded to the website www.lmfimf.com by 31 March 2019.

4. Investor Information

4.1 Estimated Return to Investors

I provide an estimated return to Investors of between 12.2 cents and 13.4 cents per unit as at 30 November 2018, calculated as follows:

Description	\$ Low	\$ High
Cash at bank	67,817,824	67,817,824
Other assets (including interest receivable)	118,130	1,169,853
Estimated Assets Position	67,935,954	68,987,677
Other unsecured creditors	6,195,609	1,466,544
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)	10,000	10,000
Receiver's fees & outlays (BDO) 1 November to 30 November 2018	250,597	250,597
Receiver's fees & outlays (BDO) (including controllerships) 1 May to 31 October 2018	1,900,007	1,900,007
Legal Fees	543,770	543,770
Total Liabilities	9,818,441	5,089,376
Estimated net amount available to investors as at 30 November 2018	58,117,512	63,898,301
Total investor units (as at 30 November 2018)	478,100,386	478,100,386
Estimated return in the dollar	12.2 cents	13.4 cents

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 any claims made by third parties against the Fund.

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 intend applying to court by 1 February 2019 seeking directions to make an interim distribution to investors and seeking orders as to the treatment of the foreign currency investors in that distribution.

4.3 Distributions to Investors

Following the retirement of the DB Receivers, I am required to seek the directions of the Court before proceeding with an interim distribution. 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. Subject to any directions that may be made by the Court, I presently anticipate that I will be in a position to apply to Court by 1 February 2019 for directions to make an interim distribution to investors.

As advised at section 2.6, prior to making the application to court for directions to make an interim distribution, I intend to apply to Court for approval of the settlement of the Feeder Fund Proceeding.

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 29 March 2019.

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 ten applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 31 October 2018.

The tenth application for the approval of my remuneration for the period 1 May 2018 to 31 October 2018 was heard by the Court on 29 November 2018. The Court ordered that my remuneration for this period be fixed in the amount of \$1,946,635.35 (inclusive of GST) in relation to my role as the person responsible for ensuring the FMIF is wound up in accordance with its constitution and \$20,902.75 (inclusive of GST) in relation to the controllerships for the retirement village assets (which are now finalised).

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 tenth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$254,329.00 (exclusive of GST) plus outlays of \$9,457.60 (exclusive of GST) from 1 November 2018 to 30 November 2018 as detailed in the attached summary.

The key matters addressed during the period 1 November 2018 to 20 December 2018 were:

- Work undertaken in relation to the litigation matters detailed in Section 2, which among other things, include:
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits;
 - Liaising with 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 and attending a successful mediation of this dispute;
 - Progressing claims against guarantors;
 - Dealing with applications regarding the dual appointments and including reviewing the relevant material, reviewing and swearing affidavits and attendance at court for the hearing;
- Following up the DB Receivers about their 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 recording of foreign currency investors;
- Preparing affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 May 2018 to 31 October 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 blue ink, appearing to read 'David Whyte', with a stylized, flowing script.

David Whyte
Receiver



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2018 to 30 November 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 Rafier	Partner	710	0.9	639.00					0.9	639.00					
Mark Molesworth	Partner	710	3.1	2,201.00					3.1	2,201.00					
David Whyte	Partner	595	114.8	68,306.00	57.3	34,093.50	4.4	2,618.00	28.3	16,838.50			24.8	14,756.00	
Clark Jarrold	Partner	595	11.9	7,080.50	11.9	7,080.50									
Andrew Fielding	Partner	595	1.0	595.00									1.0	595.00	
Craig Jenkins	Partner	515	10.5	5,407.50	10.5	5,407.50									
Alastair Raphael	Senior Manager	485	47.0	22,795.00	26.4	12,804.00	20.6	9,991.00							
Arthur Taylor	Senior Manager	485	117.9	57,181.50	98.3	47,675.50			19.6	9,506.00					
Georgia Griffin	Manager	465	4.3	1,999.50					4.3	1,999.50					
Jayden Coulston	Manager	445	0.2	89.00									0.2	89.00	
Julie Pagcu	Associate Director	430	6.3	2,709.00	6.3	2,709.00									
Ainsley Watt	Senior Accountant - Exp	360	66.3	23,868.00	8.8	3,168.00	25.0	9,000.00	5.7	2,052.00			26.8	9,648.00	
George Lethbridge	Graduate Accountant	220	83.3	18,326.00	29.5	6,490.00	34.3	7,546.00	2.2	484.00			13.6	2,992.00	
Antoinette Fielding	Graduate Accountant	220	30.0	6,600.00			27.6	6,072.00					1.7	374.00	
Sarah Cunningham	Accounting Assistant	220	2.9	638.00									2.9	638.00	
Eloise Carroll	Graduate Accountant	220	15.8	3,476.00			15.8	3,476.00							
Amy Glubb	Accountant	220	92.8	20,416.00	4.3	946.00	82.6	18,172.00					5.9	1,298.00	
Ryan Whyte	Undergraduate	180	58.4	10,512.00	22.5	4,050.00	25.8	4,644.00					2.6	468.00	
Moira Hattingh	Practice Assistant	100	14.9	1,490.00									14.9	1,490.00	
TOTALS			682.3	254,329.00	275.8	124,424.00	236.1	61,519.00	64.1	33,720.00	8.0	1,656.00	98.3	33,010.00	
			GST												
			TOTAL INC GST												
			AVERAGE HOURLY RATE		373	451	261	526	207	336					



Disbursements for the period 1 November 2018 to 30 November 2018

LM First Mortgage Income Fund (Receivers & Managers Appointed)

Expense Type	Amount (\$ ex GST)
Postage	8,724.30
Search Fee	583.42
General	144.05
Taxi fares	5.83
TOTAL	9,457.60
GST	945.76
TOTAL INC GST	10,403.36