

TO THE INVESTOR AS ADDRESSED

20 December 2021

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

1. Introduction

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 36th update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 30 September 2021. This report should be read in conjunction with my previous reports, which are available on the website www.lmfimf.com.

2. Progress and Status of the Winding Up

2.1 Legal Actions/Potential Recoveries

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

I refer to my previous updates to investors in relation to proceedings against a number of parties, including the MPF Trustee and a number of directors of LMIM, 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 was for approximately \$15.5M plus interest.

As previously advised, the Judge dismissed my claim on 22 November 2019.

Costs were awarded in favour of the defendants.

On 20 December 2019 I filed an appeal of the decision. The progress of the appeal was awaiting the outcome of an application for judicial advice. The Court declined to provide me with judicial advice. After careful consideration, taking into account all of the relevant circumstances, I discontinued the appeal. The directors' costs of the proceedings, the appeal and the judicial advice application are yet to be determined.

2.1.2 Claim against the former auditors (EY Proceeding)

I refer to my previous updates to investors and provide a brief summary of the proceedings and the key events since my last report, as follows:

- The proceedings were commenced against the former auditors of the Fund, EY claiming damages for negligence and breach of contract in relation to the audits and reviews of the financial statements for each half year period from 30 June 2008 to 30 June 2012 and in relation to the

compliance plan audits for FY2008 to FY2012. This includes claims in relation to EY failing to properly impair the loans granted by the Fund and where up to date valuations were not obtained;

- The claims, at their highest, have been calculated at up to \$249.6M;
- The EY Proceeding is an extremely complex legal proceeding due to, among other things:
 - The scope, complexity and breadth of the allegations made against EY covering nine financial statement audits/reviews and five compliance plan audits. The most recent version of the Statement of Claim runs to approximately 137 pages with over 600 pages of consolidated particulars. The most recent version of the Defence runs to approximately 230 pages with the reply to the defence amounting to 81 pages;
 - The extent of disclosure required - over 300,000 documents have been disclosed by the plaintiff in the case;
 - The scope and complexity of expert evidence required to support the claim. A total of forty five expert reports (excluding supplementary reports) have been delivered in support of the claim, many of which are very lengthy, from multiple fields of expertise including financial statements audit (in excess of 2,000 pages), compliance plan audit (in excess of 600 pages), valuation, investor behaviour, funds management, finance and banking experts. To give an example of the complexity of the expert evidence, the expert valuation evidence required was 28 valuation reports, each of which valued a total of six retirement villages, completed residential and commercial properties, part completed properties and land held as security for twenty three loans made by the FMIF, as at approximately nine different dates at six monthly intervals between 30 June 2008 and 30 December 2012.
- A substantial amount of work has been completed since my last report in respect of:
 - Completion of seventeen supplementary valuation reports for additional dates to assist with the loss and damages expert's report;
 - Completion of the loss and damages expert's report for the 30 June 2008 audit calculating the loss at up to \$249.6M;
- The final expert report in respect of the calculation of the loss and damage for a number of other counterfactual dates is currently being prepared and is due to be delivered by 24 December 2021. At that time all expert reports and lay evidence will have been completed by the Fund and the defendants will then be required to undertake significant work in response;
- The defendants are required to file and serve any expert valuation reports and lay evidence on which they intend to rely by 28 February 2022;
- A further review of the proceedings by the Court is due to be held on 15 February 2022;
- At the upcoming review by the Court in February 2022, it is expected that the time for the defendants to deliver their remaining expert and lay evidence will be timetabled and which, when completed, will be followed by a trial. At this stage the timing of the trial has not yet been set by the Court.

- The timing of the trial will be subject to a number of variables, some of which are not within my control, including whether EY delivers its expert evidence within the timeframes directed by the Court, and the availability of trial dates. Inquiries of the Court as to the availability of trial dates will be made at the appropriate time. I hope to be in a position to provide an update in relation to the anticipated timing of the trial of the EY Proceeding after the next review by the Court.

2.1.3 Bellpac Proceedings - Wollongong Coal Ltd (WCL)

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

- The liquidator of Bellpac received the settlement amount of \$2 million from WCL in relation to the claim for redemption of the \$2 million Bonds held in WCL. A partial distribution of \$1M was received from the Bellpac liquidator in October 2019;
- 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 entered into a binding heads of agreement (HOA) relating to the settlement of the litigation commenced against WCL. The terms of the heads of agreement included that WCL 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 included obtaining necessary approvals to undertake the settlement transactions. In this regard:
 - The Bellpac Liquidator 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 was therefore required to seek shareholder approval.

The remaining condition precedent (Sunset Date) to the settlement with WCL was extended a number of times over the last four years and WCL paid \$3M towards the settlement into their solicitors' trust account, to be released upon receiving shareholder approval of the settlement.

Delays were encountered in calling the meeting of shareholders, including WCL entering into a scheme of arrangement which was terminated after failing to meet certain conditions, but which was subsequently reinstated. A revised binding heads of agreement was executed on 9 June 2020 with the conditions precedent to be satisfied by 31 October 2020.

As the conditions precedent were not going to be satisfied by 31 October 2020, the Bellpac liquidator entered into further negotiations to try and conclude a settlement. As a result of those negotiations, a further deed of settlement was entered into on 30 October 2020 with \$2.76M payable upon obtaining creditors approval and a further \$600,000 payable within six months if WCL opted to buy-back the shares held in WCL.

Creditors approved the revised deed of settlement at a meeting held on 18 November 2020 and \$2.75M was subsequently distributed to the Fund (\$2.5M on 27 November 2020 and \$250k on 11 March 2021).

WCL did not exercise the option to buy back the shares for \$600,000 within the six month period.

Following a rights issue by WCL to raise \$32M and which was completed on 29 September 2021, Bellpac's shareholding has reduced from approximately 25% of the total shares on issue to approximately 0.75%.

I do not intend reporting any further on this matter unless an offer is received for the Bellpac shareholding.

2.1.4 Claims against guarantors

There is one remaining matter which can be summarised, as follows:

- PTAL as custodian of the FMIF obtained judgment against a guarantor, for approximately \$3 million, plus interest and costs. The trustee in bankruptcy identified potential recoveries for the benefit of creditors of the bankrupt estate, of which the Fund is a major creditor. 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 was held in a solicitors trust account on an interim basis, protected by certain undertakings given by the solicitor holding the funds.
- The trustee claimed an entitlement in respect of all or at least a substantial 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 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. A public examination was held in the Federal Court in November 2019. Subsequently, demands were served on several parties. The trustee held two mediations with several parties in relation to the dispute and there were ongoing settlement negotiations which culminated in a settlement being reached on 1 September 2021.
- The gross return to the bankrupt estate from the settlement will be between \$2,882,181 and \$3,832,181, depending upon the outcome of a taxation objection. The Trustee has estimated that the net return to the bankrupt estate, after deducting AFSA realisations charge, repayment of the funding provided by the FMIF, and the current and former Trustee's unpaid remuneration and expenses, will be approximately \$1,004,711 to \$1,964,161, not including allowances for the Trustee's future remuneration and expenses, or any taxation liabilities arising from the settlement.
- The taxation objection has been lodged and it is expected a decision will be made early in the New Year. Following that, and under the Deed of Indemnity, the Trustee is required to make an application to Court seeking an order giving the FMIF a priority over other creditors. The amount payable to the FMIF from the bankrupt estate will depend upon the outcome of this application.

2.1.5 Liquidators of LMIM (FTI Consulting)

2.1.5.1 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.lmfimif.com and www.lminvestmentadministration.com.

The judgement and orders made with respect to FTI's second remuneration claim are summarised in paragraph 2.1.5.2 of my report to investors dated 31 March 2020.

2.1.5.2 Third FTI Remuneration Application

On 12 February 2021, Mr Park filed an application in the Court for approval and payment from the FMIF of his remuneration for the period 1 July 2018 to 31 October 2020 in the sum of \$260,633.12 (including GST), made up of Category 1 remuneration (remuneration that is specifically referable to the FMIF) of \$182,661.60 (including GST), and Category 2 Remuneration (remuneration that relates to all of the funds of which LMIM is the Responsible Entity and that is apportioned between the relevant funds) of \$77,971.52 (including GST).

The application was heard on 31 May 2021. I did not appear. The Court approved the payment to Mr Park of remuneration of \$243,236.90 (including GST) from property of the FMIF for the period 1 July 2018 to 31 October 2020, made up of Category 1 remuneration of \$170,809.20 (including GST) and Category 2 remuneration of \$72,427.70 (including GST).

2.1.5.3 Indemnity claim against the Fund and proof of debt process

The proof of debt process and claims notified to me, or potential claims by LMIM for indemnity from the FMIF, with respect to debts or claims of creditors of LMIM, are summarised in paragraph 2.1.5.3 of my report to investors dated 31 March 2020.

There have been no developments in relation to these indemnity claims since my last report to investors.

2.1.5.4 Expenses

On 5 August 2021, FTI informed BDO that the remuneration, and expenses claims by the Liquidator, that had not been submitted to the Court for approval or paid as at 30 June 2021, were as follows:

- Legal costs attributable to FMIF - \$183,615.51 (including GST); and
- Remuneration attributable to FMIF - \$20,111.30 (including GST).

However, these figures may be subject to change and are subject to Court approval.

It is expected that further remuneration and expenses claims will be made by the Liquidator during the course of the winding up.

2.1.5.6 Claim filed against LMIM

The claims made in this proceeding and the key steps to date in the proceeding, are summarised in paragraph 2.1.5.6 of my report to investors dated 19 December 2019. The current status of this claim is that it remains stayed until further order. I will keep investors updated as to any developments in relation to this claim.

3. Management Accounts

As advised in my previous report, the management accounts for the year ended 30 June 2021 are available on the website www.lmfimif.com.

The management accounts for the half-year ending 31 December 2021 will be uploaded to the website www.lmfimif.com by 31 March 2022.

4.1 Estimated Return to Investors

4.1.1 Based on current cash at bank and excluding future recoveries and costs

I provide an estimated remaining return to Investors of 4.1 cents per unit as at 30 November 2021, and a total estimated return of 10.6 cents per unit taking into account the interim distribution paid of 6.5 cents per unit, calculated as follows:

Description	\$ Amount
Estimated net amount of assets available to investors as at 30 November 2021 (\$)	17,662,433
Benefit of Feeder Fund settlement of amounts withheld*	2,281,249*
Total estimated amount available to investors	19,943,682
Total investor units (AUD Equivalent as at date of appointment)	492,125,624
Estimated return in the dollar	4.1 cents
Add: Distributions to date	6.5 cents
Total estimated return in the dollar	10.6 cents

If further recoveries are made this will increase the amount due from the Feeder Funds settlement.

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 or other third parties.

The Feeder Fund settlement will reduce the amount of cash to be paid to the Feeder Funds. Based on the amounts in the above table, I attach at Annexure 1 calculations showing the net amounts payable to the Feeder Funds, as follows:

Feeder Fund	Estimated Return
LM Currency Protected Australian Income Fund ("CPAIF")	2.2 cents
LM Institutional Currency Protected Australian Income Fund ("ICPAIF")	2.2 cents
LM Wholesale First Mortgage Income Fund ("WFMIF")	3.2 cents

These are the amounts that would be paid to the responsible entities of each of the Feeder Funds, the costs and expenses of the Feeder Funds would need to be distributed from the net cash that is paid to each of the Feeder Funds before distributions are made to Feeder Fund investors.



4.2 Further Distributions to Investors

The Court authorised and empowered me on 2 October 2019 to make an interim capital distribution of 6.5 cents per unit to investors of the LM First Mortgage Income Fund. I confirm the interim distribution was paid to investors in October 2019.

Once the above matters in section 2 have been finalised, I intend to pay, subject to court approval, the final distribution to investors.

4.3 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 4.4 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 March 2022.

4.4 Investors Queries

For any changes to investors details, please review the Useful Forms/Procedures tab on the website www.lmfimf.com which includes information regarding the following procedures:

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

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

It is preferable that all questions about the winding up, or communications are sent via email to enquiries@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 sixteen applications to Court to date to approve my remuneration since the date of my appointment on 8 August 2013.

The sixteenth application for the approval of my remuneration for the period 1 May 2021 to 31 October 2021 was heard by the Court on 16 December 2021. The Court ordered that my remuneration claim for this period be fixed in the amount of \$924,169.40 (inclusive of GST), in relation to my role as the person responsible for ensuring the FMIF is wound up in accordance with its constitution.

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

In addition to the remuneration previously approved by the Court and the sixteenth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$74,191.00 (exclusive of GST) plus disbursements of \$2.88 (exclusive of GST) from 1 to 30 November 2021 as detailed in the attached summary.

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@lmfimf.com

Yours sincerely



David Whyte
Receiver



ANNEXURE 1
ESTIMATED RETURN TO FEEDER FUNDS

Feeder Fund	Number of Units	Estimated Return to Feeder Funds as at 30 November 2021			
		Distribution (\$)	Amounts withheld (\$)	Net Amount Paid (\$)	Net Cents per Unit
CPAIF	120,702,630	4,332,028	1,732,811	2,599,217	2.2
ICPAIF	9,350,802	335,601	134,240	335,601	2.2
WFMIF	99,488,929	3,570,667	414,197	3,156,469	3.2
Total	229,542,361	8,238,296	2,281,248	6,091,287	



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2021 to 30 November 2021
LM First Mortgage Income Fund (Receiver Appointed)

Employee	Position	Rate	Totals		Task Area										
			hrs	\$	Assets		Creditors		Trade On		Dividends		Administration		
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	
Clark Jarrold	Partner	650	21.8	14,170.00	21.8	14,170.00									
Gerry Collins	Partner	635	14.6	9,271.00									14.6	9,271.00	
David Whyte	Partner	635	23.8	15,113.00	10.1	6,413.50			0.9	571.50			12.8	8,128.00	
Charles Haines	Associate	540	2.7	1,458.00			2.4	1,296.00					0.3	162.00	
Jayden Coulston	Senior Manager	515	0.2	103.00			0.2	103.00							
Ryan Whyte	Senior Accountant	340	50.2	17,068.00	10.4	3,536.00	27.8	9,452.00	10.3	3,502.00			1.7	578.00	
Jordan Devery	Accountant	285	17.4	4,959.00			14.6	4,161.00	2.8	798.00					
Nigel Wenck	Graduate Accountant	230	46.2	10,626.00			46.1	10,603.00			0.1	23.00			
Sarah Cunningham	Accounting Assistant	230	1.5	345.00									1.5	345.00	
Moira Hattingh	Professional Services Support	110	9.8	1,078.00	0.1	11.00							9.7	1,067.00	
TOTALS			188.2	74,191.00	42.4	24,130.50	91.1	25,615.00	14.0	4,871.50	0.1	23.00	40.6	19,551.00	
GST				7,419.10											
TOTAL INC GST				81,610.10											
AVERAGE HOURLY RATE				394		569		281		348		230		482	

Note: All amounts exclude GST unless otherwise noted



Disbursements for the period 1 November 2021 to 30 November 2021

LM First Mortgage Income Fund (Receiver Appointed)

Expense Type	Amount (\$ ex GST)
Postage	2.88
TOTAL	2.88
GST	0.29
TOTAL INC GST	3.17