

TO THE INVESTOR AS ADDRESSED

30 June 2022

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 38th update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 31 March 2022. 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 have been calculated by experts, at various dates, as follows:

Engagement	Calculated Loss
- 30 June 2009 Financial Statements Audit - 2009 Financial Year Compliance Plan Audit	\$249.43M
- 31 December 2009 Financial Statements Review	\$224.96M
- 30 June 2010 Financial Statements Audit - 2010 Financial Year Compliance Plan Audit	\$202.75M
- 30 June 2011 Financial Statements Audit - 2011 Financial Year Compliance Plan Audit	\$122.46M
- 31 December 2011 Financial Statements Review	\$28.43M
- 30 June 2012 Financial Statements Audit	\$12.75M

- 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 extent of disclosure required - over 525,000 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 sixty five expert reports (including 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:
 - Reviewing six expert valuation reports filed by the defendants;
 - Preparation and filing of summaries of evidence for six potential witnesses.
 - Preparation and service of twenty Notices to Admit Facts in respect of the properties securing a loan advanced by the FMIF regarding which we had intended to adduce valuation evidence at trial;
 - Providing instructions to my solicitors in relation to correspondence with professional associations;

- Providing further disclosure and reviewing the disclosure document plan;
- Preparation for and attendance at a mediation on 31 May 2022;
- Following a settlement being reached at the mediation, an application was made to court on my behalf, seeking judicial advice that I was justified in entering into a settlement deed in respect of the Proceedings. This application was listed to be heard on 10 June 2022;
- On 10 June 2022, the Liquidators of LMIM also brought an application for leave to attend at and be heard in respect to my application for judicial advice, however the Court denied granting any such leave. Following this, my application for judicial advice was heard in closed Court before his Honour Justice Kelly;
- On 24 June 2022, the Court made orders confirming that I am justified in entering into the settlement;
- The terms of the settlement are confidential.

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%.

The Bellpac liquidator subsequently received a notice of compulsory acquisition of shares under section 664C of the Corporations Act 2001 from the 90%+ shareholder, Jindal Steel and Power (Mauritius) Limited. At the offer price of \$0.0001 per share this equates to \$247,206.37 for the shares held by the liquidator. Any objections to the compulsory acquisition were to be lodged by 23 April 2022. The Bellpac liquidator did not lodge any objections and would accept the offer price.

The compulsory acquisition has been completed and the Bellpac liquidator made a further distribution to the Fund of \$250,000 on 18 May 2022.

The Bellpac liquidator expects to complete the winding up by August 2022 and a further small final distribution may be made at that time.

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 was lodged late last year and it was expected a decision would have been made by now. I am liaising with the Trustee to try and expedite a decision and to conclude the bankruptcy.
- 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 Fourth FTI Remuneration Application

On 15 February 2022, Mr Park filed an application in the Court for approval and payment from the FMIF of his remuneration for the period 1 November 2020 to 30 November 2021 in the sum of \$33,071.31 (including GST), made up of Category 1 remuneration (remuneration that is specifically referable to the FMIF) of \$18,315.00 (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 \$14,756.31 (including GST).

On 7 March 2022, Mr Park filed an application in the Court for approval and payment from the FMIF of expenses totalling \$50,579.73 plus his costs of the application.

Both applications were heard on 6 May 2022 and orders were made approving the remuneration and expenses. Further details can be found on the websites www.lmfimif.com and www.lminvestmentadministration.com.

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.

2.1.5.6 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 half-year ended 31 December 2021 are available on the website www.lmfimf.com.

The management accounts for the year ending 30 June 2022 will be uploaded to the website www.lmfimf.com by 30 September 2022.

4.1 Estimated Return to Investors

Due to confidentiality reasons, I am unable to provide details of the amounts to be realised, however, a comprehensive update of the projected return to investors will be provided in my next report, pursuant to the ASIC Exemption.

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 30 September 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 seventeen applications to Court to date to approve my remuneration since the date of my appointment on 8 August 2013.

The seventeenth application for the approval of my remuneration for the period from 1 November 2021 to 30 April 2022, in the sum of \$381,555.35 (including GST), is currently being prepared and will be filed and served shortly.

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

In addition to the remuneration previously approved by the Court and the seventeenth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$52,503.00 (exclusive of GST) plus disbursements of \$3.85 (exclusive of GST) from 1 to 31 May 2022 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@lmfmif.com

Yours sincerely



David Whyte
Receiver



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2022 to 31 May 2022
LM First Mortgage Income Fund (Receiver Appointed)

Employee	Position	Rate	Totals		Task Area							
					Assets		Creditors		Trade On		Administration	
			hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	655	28.3	18,536.50	26.8	17,554.00	0.5	327.50	0.9	589.50	0.1	65.50
Charles Haines	Associate	555	1.7	943.50	0.3	166.50	1.2	666.00			0.2	111.00
Jayden Coulston	Senior Manager	530	2.4	1,272.00			2.3	1,219.00			0.1	53.00
Ryan Whyte	Senior Accountant	390	30.2	11,778.00			25.2	9,828.00	3.6	1,404.00	1.4	546.00
Jordan Devery	Senior Accountant	350	33.3	11,655.00			33.3	11,655.00				
Nigel Wenck	Graduate Accountant	240	28.3	6,792.00			28.2	6,768.00			0.1	24.00
Sarah Cunningham	Accounting Assistant	240	1.2	288.00							1.2	288.00
Laura Hagi	Professional Services Support	190	0.1	19.00							0.1	19.00
Moira Hattingh	Professional Services Support	115	10.6	1,219.00							10.6	1,219.00
TOTALS			136.1	52,503.00	27.1	17,720.50	90.7	30,463.50	4.5	1,993.50	13.8	2,325.50
			GST	5,250.30								
			TOTAL INC GST	57,753.30								
AVERAGE HOURLY RATE			386		654		336		443		169	

Note: All amounts exclude GST unless otherwise noted



Disbursements for the period 1 May 2022 to 31 May 2022
LM First Mortgage Income Fund (Receiver Appointed)

Expense Type	Amount (\$ ex GST)
Postage	3.85
TOTAL	3.85
GST	0.39
TOTAL INC GST	4.24