

TO THE INVESTOR AS ADDRESSED

21 December 2017

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 20th update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 29 September 2017. This report should be read in conjunction with my previous reports, which are available on the website www.lmfimf.com.

A summary of the key issues covered in this report is as follows:

- The remaining security property (mostly residential land in North Queensland) was sold at auction for \$1.75 million and settled on 20 December 2017. Further details are provided at Section 3 below;
- Cash at bank as at 30 November 2017 was \$72.1 million;
- The estimated return to investors is currently 13.3 to 14.5 cents per unit as detailed at Section 8 below and before taking into account future costs and recoveries from legal proceedings on foot;
- Attempts to settle the claim against the directors, LMIM and MPF for \$15.5M plus interest, have not been successful. I am now taking further steps to progress the matter to a trial (see 2.3 below);
- The MPF Trustee's Assigned Loans Claim in which claims for relief against the assets of the Fund are made remains adjourned to a date to be fixed (see 2.1.1 below). Similarly, no further steps have been taken in relation to the MPF Trustee's AIFS Loan claim in which claims for relief against the assets of the Fund are made (see 2.1.2 below);
- As required by the orders of the Court in its decision on the strike out application of the former auditors of the Fund, I caused to be filed an amended claim on 20 November 2017 to include details of the quantification of loss and make other required changes. The claim is for in excess of \$200 million. Further details are provided in Section 4.1 below;
- Settlement of the Bellpac Liquidator's \$8M Bonds litigation has progressed however, the remaining condition precedent (Sunset Date) to settlement has been extended to March 2018.

The Liquidator has been 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. This is expected to realise \$6.3 million plus interest from 2 October 2017 for the benefit of investors. Further details in relation to the \$8M Bonds are provided in Section 4.2.1 below;

- The Court has handed down its decision in relation to the remuneration application by the former administrators, now liquidators of LMIM (FTI) referred to in paragraph 6a below and the indemnity claim by LMIM and its liquidators against the assets of the Fund referred to in paragraph 6b below. Of the approximately \$3 million claimed by FTI in this application for remuneration or expenses from the FMIF from the date of their appointment to 30 September 2015, the Court has approved the payment of \$1.827M plus any GST from the FMIF. This outcome is a significant saving for the investors. In relation to the indemnity claim, the Court found, *inter alia*, that FTI's legal costs of the appeal in 8895 of 2013 of \$263,127.13 and the costs of assessment of those costs in the sum of \$9,068.68 cannot be paid out of the property of the FMIF, and that the Liquidators are entitled to direct indemnity out of the FMIF for various amounts totalling \$44,158. His Honour also held that the clear accounts rule operates to suspend LMIM's claimed right to payment from the assets of the FMIF until the resolution of the claim made in the proceeding 11560/16 (the LMIM Claim) and that LMIM's indemnity claims, to the extent that they are otherwise maintainable, should not be finally resolved until the LMIM Claim is resolved. Further details in relation to the remuneration claim and indemnity claim are provided in Section 6 below;
- I am working towards applying to Court for approval to make an interim distribution to investors as soon as practicable subject to the resolution or determination of the ongoing litigation involving claims against the Fund, and the retirement of the Receivers and Managers of the Fund (DB Receivers) appointed by the secured creditor. Further details in relation to the status of these matters are provided below.

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 Claim

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

At the review hearing on 16 December 2016, the proceedings were adjourned to a date to be fixed as the parties wished to continue negotiations to settle the litigation in conjunction with the proceedings in both sections 2.1.2 and 2.3 below. However, given that the proceedings have not settled, I intend to take steps to progress the matter.

2.1.2 AIIS Loan Claim

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

The MPF Trustee has claimed approximately \$16.82 million as equitable compensation against LMIM and relief against the assets of the FMIF for approximately \$3.9 million (this may be increased to \$4.1 million) being alleged interest paid by the MPF to the FMIF in respect of the loan made by the FMIF to AIIS in 2005.

As with the proceedings in 2.1.1 above, these proceedings had also not progressed as negotiations to settle these proceedings were continuing. However, given the matters have not settled, I intend to take steps to progress the matter.

2.2 Position of the Secured Creditor

I refer to my comments in my previous updates to investors. The DB Receivers have advised the matter precluding their retirement is that prior to retiring, they request the provision of a release by the MPF Trustee, with respect to various claims that the MPF Trustee has made or foreshadowed.

I continue to liaise with the DB Receivers about their ongoing role and the possibility of their retirement. Given that the DB Receivers have sold the remaining property held as security for a FMIF loan and they will retire as controllers of that property shortly, I will again be pursuing the retirement of the DB Receivers' as soon as possible.

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

Whilst attempts to settle the proceedings had been continuing in relation to these proceedings and those referred to in section 2.1 above, I continued to take steps to progress the proceedings including:

- Requiring the director defendants to file amended defences pursuant to the Court rules. All director defendants, except for Peter Drake, have now filed amended defences;
- I have filed Reply's to the amended defences and made requests for further particulars which have all now been received;
- Obtaining orders enabling me to disclose for the purposes of these proceedings relevant transcripts obtained during the public examinations and documents produced for the public examinations by the former auditors.

As previously advised above, the proceedings have not settled. I am now taking further steps to progress these proceedings to a trial. The next steps are expected to be as follows:

- Bringing the matter on for review to facilitate directions for Mr Drake to file his amended defence;
- Filing a Reply to the amended defence of Mr Drake;
- The delivery of disclosure by the 1st to 4th director defendants; and
- The delivery of any further disclosure by me.

I have written to the parties seeking agreement to a date to list the proceedings for a review before the court in late January 2018 or mid to late February 2018 to obtain orders setting out a timetable for the above matters.

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

3. Realisation of Assets

The remaining property comprising 61 hectares of englobo land with various approvals for up to 257 residential lots plus retail space and a childcare centre was sold at auction on 18 November 2017 for \$1.75M (before selling costs) and settled on 20 December 2017.

This sale completes the sale of all property assets. What remains to be realised or resolved are the various claims and legal proceedings both for and against the Fund as set out below.

4. Other Potential Recoveries/Legal Actions

I provide an update in relation to investigations undertaken to date, other legal proceedings on foot and further work to be done, as follows:

4.1 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 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.

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

- The amended claim was filed on 20 November 2017 and served on the former auditors. Details of the loss has been included in the amended 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 received a request pursuant to Rule 222 of the Court Rules (Rules) from the former auditors in late November 2017 to provide documents referred to in the amended statement of claim. I have recently provided the documents requested in accordance with the Rules to the former auditors.

The next steps in the proceedings is the filing by the former auditors of a defence to the amended claim.

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

4.2 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 2.3 above, there are two further matters relating to Bellpac that have been progressed during the period, as detailed below.

4.2.1 Other Bellpac litigation

a. 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 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;
- The Bellpac liquidator and WCL entered into a binding heads of agreement (HOA) to settle 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;
- A final condition precedent to the settlement with WCL has been delayed as WCL is now required to seek shareholder approval however, certain documents needed to support the proposal to shareholders has taken longer than expected;
- The MPF has demanded from the Liquidator approximately \$680K plus interest out of the proceeds of the Bonds litigation 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. I have disputed the MPF's entitlement to a priority ahead of the Fund's first ranking security over the proceeds from the Bellpac bonds.

Developments since my last update to investors are as follows:

- The remaining condition precedent (Sunset Date) to the settlement with WCL has been extended to March 2018. The Liquidator has been 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. This is expected to realise \$6.3 million plus interest from 2 October 2017 for the benefit of investors.
- Although there has been correspondence between the parties, no resolution has been reached in respect of the MPF claim to the proceeds of the bonds.

b. Proceedings against Bellpac Receivers, LMIM, PTAL and others ('the Parties')

I refer to my previous updates to investors in regard to these proceedings which had been discontinued against all parties by mid-2016. I confirm that:

- all defendants were awarded costs against the plaintiffs when the proceedings were discontinued;
- the Austcorp plaintiff companies failed to pay the costs due to be paid to the Fund and I caused the plaintiff companies to be wound up. The liquidators of the Austcorp companies have after conducting investigations confirmed that no return is expected to creditors.

Since my last update to investors I have been successful in recovering \$150,000 from PTAL in relation to realising a bank guarantee lodged with the court by the Austcorp companies for security for PTAL's costs, which I had reimbursed in late 2016.

4.3 Other Potential Claims against LMIM and related Parties

4.3.1 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 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 CPAIF 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.

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 is not likely to receive any distribution in the winding up of the FMIF;
- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF;
- the FMIF can use the funds which otherwise would have been paid to the Feeder Funds for distributions to investors generally instead and, as a result, the return to other investors (Class A and Class C) is likely to increase.

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

- I caused to be filed an application under Section 59 of the Trusts Act 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 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) have advised they will 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 all of the books and records requested by them as set out in an affidavit of one of the receivers;
- The parties have consented to adjourn the hearing of the Applications (which was originally set down) on 8 December 2017 to a date to be fixed. I have also informed the parties that I will be making an application to have the matter listed on the Court's commercial list. The application and supporting documents are currently being prepared in respect of this application;
- I am also corresponding with Grant Thornton as to the issue of their costs and the provision of certain records to them.

At the hearing of those Applications, I also intend to seek orders for a timetable for the future conduct of the proceedings, including the filing of defences and replies.

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

4.4 Other actions against guarantors and valuers

4.4.1 Various claims against guarantors

Since my last update to investors I progressed a review of the loan book to ascertain if there are any further claims against guarantors capable of commercial recoveries.

Also proceedings against a guarantor were re-listed and judgement has now been obtained against the guarantor that defaulted on a payment obligation in a deed of settlement entered into with him. If the guarantor fails to pay the judgement, bankruptcy proceedings may then be pursued.

4.4.2 External Valuations

I refer to my previous reports to investors. I have not at this stage identified any claims that would be commercial to pursue based on my investigations into whether the valuations relied on in advancing loans was too high and if there was negligence by the valuer.

5. Western Union

Western Union hold funds on account of the FMIF, which represented investor distributions returned due to incorrect account details held.

Western Union sought to set off funds held in the FMIF account against liabilities of other LM related entities, however a confidential commercial settlement has been negotiated. This matter is expected to be finalised shortly.

6. Liquidators of LMIM (FTI Consulting)

a. Application for remuneration approval

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

- FTI filed a Further Amended Originating Application on 16 December 2015 for the determination of their remuneration claimed as administrators or liquidators of LMIM in the amount of \$3,098,251.83 for the period from the date of their appointment to 30 September 2015 from assets of the Fund;
- Judgement was reserved;
- FTI had not submitted further details of their additional remuneration and costs claimed after mid December 2015 as they were awaiting the outcome of the judgement noted above.

I summarise developments since my update to investors as follows:

- The Court handed down its reasons for judgment on 17 October 2017. Orders reflecting His Honour's reasons for judgment were made on 22 November 2017 that FTI be paid a total of \$1,827,205.23 plus any GST for remuneration and out of pocket expenses from property of the FMIF for the relevant period. The result is a significant cost saving for the investors as the amount

- to be paid to FTI from property of the FMIF for the relevant period is significantly less than the claimed amount from the property of the FMIF of approximately \$3.1 million (plus GST);
- As to the costs of the proceedings, the court orders provide that certain specified proportions of FTI's costs on an indemnity basis are to be paid from the property of the Fund and 3 other LM funds. The quantum of those costs is to be assessed if they cannot be agreed between FTI and me.

b. Indemnity claim against the Fund and proof of debt process

As advised in my previous reports to investors, the orders handed down following the hearing of FTI's application for directions and orders in relation to their ongoing role and extent of their powers and responsibilities to undertake certain duties in the winding up of the FMIF set out, amongst other things, the process for me to adjudicate on claims made by LMIM for indemnity against the property of the FMIF in respect to any expense or liability of, or claim against, LMIM in acting as Responsible Entity of the FMIF.

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

- FTI submitted two indemnity claims for \$241,453.54 and \$375,499.78 against the assets of the Fund;
- The first claim of \$241,453.54 relates to legal costs incurred in relation to the appeal of the decision appointing me as receiver to wind up the Fund. I rejected this claim in full;
- In respect of the second claim, I accepted and paid \$84,954.41 (\$93,449.85 less GST of \$8,495.44) (Accepted Claim), rejected \$169,243.26 and deferred \$5,473.59 pending the judgement to be handed down in relation to FTI's remuneration application. The balance of FTI's claim has been withdrawn;
- FTI made an application to Court challenging my decision to reject their indemnity claim noted above (Indemnity Application);
- I obtained judicial advice to the effect that I am justified in raising the clear accounts rule in opposition to the Indemnity Application, in relation to certain identified claims;
- I caused to be filed a detailed Points of Claim in preparation for the hearing;
- FTI's Indemnity Application challenging my decision to reject FTI's indemnity claim was heard on 19 and 20 June 2017. The Court reserved its decision.

I summarise developments since my update to investors as follows:

- The Court handed down its reasons for judgment on 17 October 2017. His Honour found that the legal costs of the appeal in 8895 of 2013 of \$263,127.13 and costs of assessment of those costs in the sum of \$9,068.68 cannot be paid out of the property of the FMIF, that the Liquidators are entitled to direct indemnity out of the FMIF for various amounts totalling \$44,158, and that the clear accounts rule operates to suspend LMIM's claimed right to payment from the assets of the FMIF until the resolution of the claim made in the proceeding 11560/16 (the LMIM Claim) and that LMIM's indemnity claims, to the extent that they are otherwise maintainable, should not be finally resolved until the LMIM Claim is resolved;

- Orders reflecting His Honour's reasons for judgment were made on 22 November 2017;
- As to the costs of the proceedings, the court orders provide that 90% of FTI's costs of the application be paid on an indemnity basis as agreed with me or otherwise as assessed by the Court;
- In summary, of the total amount sought of \$616,953 under FTI's indemnity claim, only \$129,112 has to be paid from the Fund's assets.

Please note that material filed, decisions and orders made in relation to FTI's remuneration claim and indemnity claim are available on the websites www.lmfimf.com and www.lminvestmentadministration.com.

c. Proof of debt process

If a debt or claim is admitted by FTI in the winding up of LMIM and a claim for indemnity out of the FMIF with respect to such debt or claim is identified, I summarise the process as outlined in the Court Orders as follows:

- FTI must notify me within 14 days of the claim for indemnity against the assets of the Fund;
- Within 14 days I may seek further information in relation to the claim;
- Within 30 days of receipt of the claim from FTI or from receipt of further information I have requested, I am required to:
 - Accept the claim, or
 - Reject the claim, or
 - Accept part of it and reject part of the claim; and
 - To give FTI written notice of the decision;
- I am required to give FTI written reasons for rejecting any part of a claim within 7 days after giving notice of my decision including those claims identified through the proof of debt process mentioned above;
- Within 28 days of receiving a notice of rejection, FTI may apply to the Court for directions in relation to the rejection and advise the creditor of my decision and other specified matters.

I have sought a number of updates from FTI as to when they will be commencing the process. I am hopeful that this process can be undertaken in the near future so the quantum of any creditor claims against the Fund can be ascertained and dealt with as soon as possible. These claims may be subject to the "clear accounts rule" described in section b. above and if so, a set off against that claim may be able to be made.

d. 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 summarise developments since my previous update to investors as follows:

- Steps have been taken to prepare an application under Section 59 of the Trusts Act for directions of the Court in relation to how the differing interests of the parties (LMIM as RE of the FMIF, and LMIM in its personal capacity) are to be represented in the proceedings and an application under Section 500 of the Corporations Act to seek leave to proceed against LMIM (the Applications) and supporting Affidavits.

Subject to any directions that may be made by the Court, if the claims made in this proceeding are successful, they may be able to be relied upon as a set-off against certain claims made by LMIM for indemnity out of assets of the FMIF, including those claims identified through the proof of debt process mentioned above or claims made by other parties seeking to subrogate to LMIM's alleged rights of indemnity.

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

7. Management Accounts

As advised in my previous report, the management accounts for the year ending 30 June 2017 are available on the website www.lmfimif.com.

The management accounts for the half year ending 31 December 2017 will be prepared shortly and will be available on the website www.lmfimif.com by 31 March 2017.

8. Investor Information

8.1 Estimated Return to Investors

Taking into account the sale price of the remaining property charged to the Fund that settled on 20 December 2017, I provide an estimated return to Investors of between 13.3 cents and 14.5 cents per unit as at 30 November 2017, calculated as follows:

Estimated Return as at 30 November 2017	\$ Low	\$ High
Cash at bank	72,121,468	72,121,468
Other assets (including sale price of remaining property net of selling costs)	1,839,119	3,049,119
Estimated Assets Position	73,960,587	75,170,587
<i>Less:</i>		
Other unsecured creditors (includes FTI costs claimed from remuneration and indemnity applications - per below)	6,939,599	2,160,439
FTI Fees & indemnity costs approved by the Court - refer to Section 6 for further details	1,871,364	1,871,364
Receivers and Managers' fees (DB Receivers)	189,984	189,984
Receiver's fees & outlays (BDO) (including controllerships) approved by the Court but not paid (1 May to 31 October 2017)	1,257,531	1,257,531
Receiver's fees & outlays (BDO) (including controllerships) for the month of November 2017	250,806	250,806
Total Liabilities	10,509,283	5,730,123
Estimated net amount available to investors as at 30 November 2017	63,451,304	69,440,464
Total investor units	478,100,386	478,100,386
Estimated return in the dollar	13.3 cents	14.5 cents

Please note that this 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 including the claim and relief now sought against the Feeder Funds.

In calculating the estimated return to investors, I have also not provided any provision for the claim filed by the MPF as the prospects of a successful claim against the Fund is unknown.

Investments made in Foreign Currencies

As advised in my previous reports, 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.

Further investigations are ongoing and appropriate steps, including an application to Court for directions approving the correction of the member records of the FMIF, will be taken to address the issue and to ensure that the member records of the FMIF are accurate. I have engaged external IT consultants to assist me in rectifying the register.

8.2 Distributions to Investors

I will update investors as to the expected timing of a distribution as these matters become clearer, however, I am working towards being in a position to commence distributions as soon as practicable, although it is subject to resolving matters before the court where I cannot necessarily control the timeframe to resolve the issues.

The matters before the court which need to be resolved prior to a distribution to investors are:

- the Bellpac litigation claim against the directors, MPF and LMIM and the MPF's claims against the Fund (see sections 2.1 and 2.3 above). These proceedings have not settled and I am now taking further steps to progress the matter to a trial;
- the recent claim served on the Feeder Funds seeking declarations that any distribution to the Feeder Funds be withheld (see section 4.3.1 above);
- obtaining directions from the Court for approval to proceed with a distribution and the retirement of the DB Receivers so that the funds of the FMIF held by them are released to me.

Please note that a distribution to investors will take place after paying DB's receivers fees and costs, remaining property expenses, receiver's fees and costs and the unsecured creditors who rank ahead of investors' interests.

8.3 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 8.4 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 2018.

8.4 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

9. Receiver's Remuneration and Expenses

There have been eight applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 31 October 2017.

The eighth application for the approval of my remuneration for the period 1 May 2017 to 31 October 2017 was heard on 30 November 2017. The Court ordered that my remuneration for this period be fixed in the amount of \$1,280,897.20 (inclusive of GST). In addition, the Court approved my remuneration sought of \$26,155.25 (inclusive of GST) in respect of the work undertaken on the controllerships.

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

In addition to the remuneration approved by the Court, I calculate that, on a time basis, I have incurred further remuneration of \$230,740 plus outlays of \$3,774.56 plus GST from 1 November 2017 to 30 November 2017 plus work undertaken in respect of the controllerships for the retirement village assets of \$5,834.50 plus GST as detailed in the table below and attached summaries.

Remuneration Incurred for November 2017	Remuneration \$ (GST excl.)	Outlays \$ (GST excl.)
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	230,740.00	3,774.56
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	3,977.00	-

Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	272.00	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	887.50	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Controllers Appointed)	116.00	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	291.00	-
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	291.00	-
Total	236,574.50	3,774.56

The key matters addressed during the period, were:

- Work undertaken in relation to the litigation matters detailed at Sections 2, 4 and 6 of this report, which include, among other things:
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits. The majority of the work undertaken was to comply with the court's decision on the former auditors' strike out application including, amending the claim to include details of the quantification of the loss suffered by the Fund and preparing loss calculations for each six month period from 1 July 2009 to 1 January 2013;
 - Providing assistance to the Liquidator of Bellpac regarding the \$8M bond claim including progressing the settlement with WCL;
 - Progressing the claim against the MPF and others;
 - Progressing the claim against the Feeder Funds in relation to redemptions and distributions paid to Class B unitholders;
 - Progressing claims against guarantors;
 - Dealing with FTI's proceedings to review the rejection of parts of their claims for indemnity against the assets of the Fund for expenses and costs incurred in their capacity as liquidators of the responsible entity;
 - Progressing the claim against LMIM;
- Liaising with various parties in relation to the potential for the DB Receiver's retirement;
- Finalising the Western Union matter;
- Maintaining the management accounts of the Fund;
- Undertaking the investor management function for approximately 4,500 investors including answering queries on the winding up of the Fund and maintaining the investment database, including any change in details or transfer of units;
- Progressing the investigation of the AX files to determine the alternatives to resolving the incorrect conversion of foreign investors units into AX;

- Preparing affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 May 2017 to 31 October 2017;
- Finalising outstanding residual matters from the sale of five retirement villages, including tax compliance issues.

I anticipate that my next application to Court for the approval of my remuneration will be made in May/June 2018 covering the period 1 November 2017 to 30 April 2018. A copy of my application in this respect will be posted to the website www.lmfimf.com and investors will be notified when this application has been lodged.

10. 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

A handwritten signature in blue ink, appearing to read 'David Whyte', with a long, sweeping horizontal stroke extending to the right.

David Whyte
Receiver



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017
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	\$
Clark Jarrold	Partner	580	31.1	18,038.00	31.1	13,038.00								
David Whyte	Partner	580	49.3	28,594.00	12.6	7,308.00	2.7	1,566.00	7.6	4,408.00			26.4	15,312.00
Mark Whittaker	Partner	560	16.7	9,352.00	3.6	2,016.00			13.1	7,336.00				
Craig Jenkins	Partner	500	11.8	5,900.00	11.8	5,900.00								
Eric Leeuwendal	Executive Director	495	150.5	74,497.50	78.6	38,907.00	11.1	5,494.50	50.7	25,096.50	9.9	4,900.50	0.2	99.00
Chris Demeyere	Manager	430	6.6	2,838.00	6.6	2,838.00								
Julie Pagcu	Senior Manager	385	24.4	9,394.00	24.4	9,394.00								
Ainsley Watt	Senior Accountant I	350	92.4	32,340.00	6.3	2,205.00	65.2	22,820.00	7.7	2,695.00	2.0	700.00	11.2	3,920.00
Andrew Hack	Analyst I	225	2.4	540.00	2.4	540.00								
Andrew Whittaker	Accountant II	215	52.3	11,244.50			49.4	10,621.00			2.5	537.50	0.4	86.00
Ryan Whyte	Undergraduate	175	120.5	21,087.50	3.9	682.50	87.1	15,242.50	0.8	140.00	9.7	1,697.50	19.0	3,325.00
Antoinette Fielding	Undergraduate	175	53.2	9,310.00			49.0	8,575.00	1.0	175.00			3.2	560.00
George Lethbridge	Undergraduate	175	37.1	6,492.50	5.5	962.50	28.5	4,987.50			2.4	420.00	0.7	122.50
Emma Sheehy	Junior Practice Assistant	120	0.4	48.00	0.4	48.00								
Maira Hattingh	Team Assistant	95	11.2	1,064.00									11.2	1,064.00
TOTALS			659.9	230,740.00	187.2	88,839.00	293.0	69,306.50	80.9	39,850.50	26.5	8,255.50	72.3	24,488.50
			GST		23,074.00									
			TOTAL INC GST		253,814.00									
			AVERAGE HOURLY RATE		350		475	237	493	312	339			

Note: All amounts exclude GST unless otherwise noted



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Disbursements for the period 1 November 2017 to 30 November 2017

LM First Mortgage Income Fund (Receivers & Managers Appointed)

Expense Type	Amount (\$ ex GST)
Postage	3,106.22
Printing	325.20
TOTAL	3,431.42
GST	343.14
TOTAL INC GST	3,774.56



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Bridgewater Lake Estate Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area		
			hrs	\$	Trade On		Administration
					hrs	\$	
Eric Leeuwendal	Executive Director	495	0.8	396.00	0.8	396.00	
Ainsley Watt	Senior Accountant I	350	1.1	385.00	0.2	70.00	315.00
Ryan Whyte	Undergraduate	175	0.5	87.50			87.50
Moir Hattingh	Team Assistant	95	0.2	19.00			19.00
TCTALS			2.6	887.50	1.0	466.00	421.50
			GST				
			TOTAL INC GST				
			AVERAGE HOURLY RATE				
					466		263

Note: All amounts exclude GST unless otherwise noted



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	\$
Ryan Whyte	Undergraduate	175	0.5	87.50	0.5	87.50
Maira Hattingh	Team Assistant	95	0.3	28.50	0.3	28.50
TOTALS			0.8	116.00	0.8	116.00
			GST	11.60		
TOTAL INC GST				127.60		
AVERAGE HOURLY RATE				145		145

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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017
Pinevale Villas Morayfield Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.5	175.00	0.5	175.00
Ryan Whyte	Undergraduate	175	0.5	87.50	0.5	87.50
Maira Hattingh	Team Assistant	95	0.1	9.50	0.1	9.50
TOTALS			1.1	272.00	1.1	272.00
			GST	27.20		
TOTAL INC GST				299.20		
AVERAGE HOURLY RATE				247		247

Note: All amounts exclude GST unless otherwise noted



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017

OVST Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area							
			hrs	\$	Assets		Creditors		Trade On		Administration	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$
Leisa Rafter	Partner	680	0.3	204.00					0.3	204.00		
Eric Leeuwendaal	Executive Director	495	0.9	445.50					0.9	445.50		
Samuel Alexander	Manager	450	1.7	765.00					1.7	765.00		
Ainsley Watt	Senior Accountant I	350	2.5	875.00	C.4	140.00	0.2	70.00	1.4	490.00	0.5	175.00
Reuben Tham	Consultant I	240	6.1	1,464.00					6.1	1,464.00		
Sarah Cunningham	Team Assistant	215	0.4	86.00							0.4	86.00
Ryan Whyte	Undergraduate	175	0.7	122.50							0.7	122.50
Sarah Matthews	Team Assistant	150	0.1	15.00					0.1	15.00		
TOTALS			12.7	3,977.00	0.4	140.00	0.2	70.00	10.5	3,383.50	1.6	383.50
			GST		397.70							
			TOTAL INC GST		4,374.70							
			AVERAGE HOURLY RATE		313		350		322		240	



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017
Redland Bay Leisure Life Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	\$
Ainsley Watt	Senior Accountant I	350	0.5	175.00	0.5	175.00
Ryan Whyte	Undergraduate	175	0.5	87.50	0.5	87.50
Maira Hattingh	Team Assistant	95	0.3	28.50	0.3	28.50
TOTALS			1.3	291.00	1.3	291.00
			GST	29.10		
			TOTAL INC GST	320.10		
			AVERAGE HOURLY RATE	224		

Note: All amounts exclude GST unless otherwise noted



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REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 30 November 2017
Redland Bay Leisure Life Development Pty Ltd (Receivers & Managers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.5	175.00	0.5	175.00
Ryan Whyte	Undergraduate	175	0.5	87.50	0.5	87.50
Moirra Hattirgh	Team Assistant	95	0.3	28.50	0.3	28.50
TOTALS			1.3	291.00	1.3	291.00
			GST	29.10		
			TOTAL INC GST	320.10		
			AVERAGE HOURLY RATE	224		
						224

Note: All amounts exclude GST unless otherwise noted