

settlement. He advised me that he has agreed to again extend the sunset date to 18 May 2018;

- The Bellpac liquidator has recently been pursuing WCL for an update on their progress with preparation for the shareholders meeting however, a response has not yet been received.

1.2.3 Redemptions and Distributions paid to Class B Unit Holders

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

- Investigations have been undertaken via the PE conducted in 2015 and subsequent thereto in relation to redemptions and distributions paid to the Class B unit holders (Feeder Funds) when the Fund had suspended redemptions and distributions to other classes of members;
- The Feeder funds are the LM Currency Protected Australian Income Fund (CPAIF), the LM Institutional Currency Protected Australian Income Fund (ICPAIF) and the LM Wholesale First Mortgage Income Fund (WMIF);
- On 28 July 2017, I caused to be filed an amended statement of claim against LMIM and the Feeder Funds 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
- In October 2017, 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 certain books and records as requested by them.

- The parties consented to adjourn the hearing of the Applications (which was originally set down on 8 December 2017) to a date to be fixed.

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

- 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 have been prepared in respect of this application and sent to the parties for their comments;
- It is intended that the Applications and the Commercial List Application will be set down for hearing shortly, at which time I will also seek directions for the further conduct of the proceedings. 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 am also corresponding with the parties as to the provision of certain documents requested by them to assist with the just and expeditious resolution of the real issues of the proceedings.

If the Court grants the relief sought against the Feeder Funds and putting aside any other recoveries for the benefit of investors:

- the CPAIF and ICPAIF are not likely to receive any distribution in the winding up of the FMIF;
- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF;
- 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 will keep investors updated as to the progress of this claim.

1.2.4 Various claims against guarantors

Developments since my last report to investors are as follows:

- Judgement has been obtained against the guarantor that defaulted on a payment obligation in a deed of settlement entered into with him however, my solicitors have had difficulties in serving the judgment on the guarantor. Once service has been effected and if the guarantor then fails to pay the judgement, bankruptcy proceedings may then be pursued;
- I recently received a report from the trustee of a bankrupt guarantor that his investigations have identified potential recoveries for the benefit of creditors of which the Fund is the major creditor. I am liaising with the trustee in regard to his continuing investigations and negotiations with certain of the parties involved in the land development, the proceeds of which we are informed the bankrupt has an entitlement.

1.2.5 Western Union

Western Union held 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 was finalised and the settlement funds deposited into the Fund's bank account during the Period.

1.2.6 Liquidators of LMIM (FTI Consulting)

1.2.6.1 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.
- 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 three other LM funds. The quantum of those costs is to be assessed if they cannot be agreed between FTI and me.

I summarise developments since my update to investors as follows:

- FTI filed an application on 19 December 2017 for further orders against me for payment of the amounts ordered on 22 November 2017 to be paid. That application has been adjourned to a date to be fixed;
- The amount of \$1,827,205.23, being the remuneration (excluding any amount for GST) for the period to 30 September 2015 as approved by the Court, was paid on 20 December 2017 together with an amount of interest. However, a dispute has arisen as to the appropriate treatment for GST purposes (by FTI, LMIM and the FMIF) of any GST attributable to the work performed by FTI. The additional amount claimed for GST has not been paid by the Fund.

1.2.6.2 Indemnity claim against the Fund and proof of debt process

As advised in my previous reports to investors, the orders handed down in relation to FTI's ongoing role and extent of their powers and responsibilities 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;
- 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;
- 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.

I summarise developments since my update to investors as follows:

- The amount of \$44,158 was paid to FTI on 20 December 2017

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.lmfimif.com and www.lminvestmentadministration.com.

1.2.6.3 Additional remuneration claimed

As the judgement had been handed down, I requested FTI to provide details of any additional remuneration and costs incurred subsequent to the remuneration claimed in the above mentioned court application.

FTI has informed me that for the period since late 2015 and up to 31 December 2017 they have incurred additional remuneration of \$329,678 plus GST and expenses of \$7,731 plus GST. FTI have advised that they propose to make application to the court for the approval of the remuneration shortly.

FTI have provided me with these figures so that the Fund may properly record the expense in the December 2017 management accounts. I have yet to receive details of these amounts claimed and FTI have advised these amounts are subject to change based on the formulation of its application for court approval.

1.2.6.4 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 above and if so, a set off against that claim may be able to be made.

1.2.6.5 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;
- Following further investigations, an amended claim and statement of claim and consolidated particulars have been filed and served on LMIM;
- 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.

No further steps have been taken since my previous update to investors.

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.

1.3 Realisation of Assets

All real property assets have now been sold. What remains to be realised or resolved are the various claims and legal proceedings both for and against the Fund as set out above.

2. Financial Position of the Fund

The management accounts for the year ending 31 December 2017 have now been completed and are available on the website www.lmfimif.com on the page titled 'Financial Statements & Other Key Documents'.

A summary of the financial position of the Fund as at 31 December 2017 is provided below.

	31 December 2017
ASSETS	\$
Cash and cash equivalents	69,932,089
Receivables	389,476
Loans & Receivables	1,716,378
TOTAL ASSETS	72,037,943
LIABILITIES	
Payables	2,423,816
Distributions payable	1,372,036
Total liabilities excluding net assets attributable to unitholders	3,795,852
NET ASSETS	68,242,091

2.1 Fund Assets

The total assets of the Fund as at 31 December 2017 were \$72,037,943.

The balance includes cash at bank of \$69,932,089, interest receivable on term deposits and GST refunds of \$389,476 and net default loans of \$1,716,378. The net default loans balance represents the cash held in controllership bank accounts.

2.2 Fund Liabilities

The total liabilities of the Fund as at 31 December 2016 were \$3,795,852.

The Distributions Payable balance relates to distributions paid prior to the date of the receiver's appointment which have not cleared or were returned unclaimed.

The Payables balance primarily consists of trade creditors, custodian fees, legal fees, receiver's fees and fees and expenses claimed by FTI, which remain unpaid as at 31 December 2017.

2.3 Net Assets Attributable to Unit Holders

Net assets attributable to unit holders as at 31 December 2017 were \$68,242,091.



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

	31 December 2017	30 June 2017
Estimated net amount of assets available to investors as at the period end (\$)	68,242,091	68,809,977
Total investor units (# of units) *	478,100,386	478,100,386
Estimated net asset amount per unit available to investors as at the period end (cents in the dollar)	0.143	0.144

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. 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.

3. Receipts and Payments of the Fund

The receipts and payments of the Fund, as maintained by the DB Receivers, for the period 1 July 2017 to 31 December 2017 is summarised in the table below.

	\$
Receipts	
Interest received	923,454
GST received	80,290
Asset realisations (from controllerships and legal matters)	1,569,614
TOTAL RECEIPTS	2,573,358
Payments	
Bank charges	11,424
Deed of assignment payment	14,000
Consultants' fees	51,829
GT Controller fees	8,578

Custodian fees	11,000
DB Receivers' fees	138,936
GST paid	298
IT expenses	60,820
Legal fees	1,013,944
FTI Liquidators' fees & expenses	1,882,252
Loan draws	85,384
Printing and stationary	19,298
Receiver's fees and disbursements	2,242,734
Record management and storage	6,460
TOTAL PAYMENTS	5,546,957
NET RECEIPTS (PAYMENTS)	(2,973,599)

Please note that the Receiver's fees and disbursements relate to work undertaken for the 12 month period between 1 November 2016 to 30 October 2017, however, payment was made during this six months reporting period.

4. Investor Information

4.1 Estimated Return to Investors

I provide an estimated return to Investors of between 13.1 cents and 14.3 cents per unit as at 28 February 2018, calculated as follows:

Description	Low \$	High \$
Cash at bank	70,181,022	70,181,022
Other assets	320,708	1,359,538
Estimated Assets	70,501,730	71,540,560
Other unsecured creditors	6,234,582	1,505,517
FTI Fees & legal expenses (subject to approval) (55% RITC)	694,756	694,756
Receivers and Managers' fees (DB Receivers) (55% RITC)	42,200	42,200
Receiver's fees & outlays (BDO) (including controllerships) (55% RITC)	641,481	641,481



Receiver's legal fees (BDO) (55% RITC)	79,414	79,414
Estimated Liabilities	7,692,432	2,963,367
Estimated net amount available to investors as at 28 February 2018	62,809,297	68,577,192
Total investor units (as at 31 December 2016)	478,100,386	478,100,386
Estimated return in the dollar	13.1 cents	14.3 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.

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

4.2 Estimated Unit Price as at 31 December 2017

The estimated unit price as at 31 December 2017 is 14.3 cents.

	\$
Total Value of Fund Assets as at 31 December 2017	72,038,217
Less Creditors and Other Payables	3,801,353
Total Net Value of Fund Assets	68,236,864
Total Number of Units	478,100,386
Unit Price	14.3 cents

I attach a copy of a letter confirming the unit price as at 31 December 2017, which may be forwarded to Centrelink to assist with the review of investors' pensions.

4.3 Distributions to Investors

Once the DB Receivers have retired and funds released to me, 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.

I am also required to seek the directions of the Court before proceeding with the next distribution.

I will update investors as to the expected timing of a distribution as these matters become clearer, however, I am hopeful to be in a position to commence distributions during this calendar year, 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 1.1.1 and 1.1.2 above). These proceedings have not settled and I am now taking further steps to progress the matter to a trial;
- the claim served on the Feeder Funds seeking declarations that any distribution to the Feeder Funds be withheld (see section 1.2.3 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.

In addition to the above, an application to Court for directions approving the correction of the member records pertaining to foreign investors of the FMIF, will need to be determined.

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.

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 30 June 2018.

4.5 Investors Queries

Arrangements are in place to ensure that any reasonable questions asked by members of the FMIF, about the winding up of the FMIF, will be answered within a reasonable period of time (generally seven days) and without charge to the investor.

For any changes to investors details, please review the Useful Forms/Procedures tab on the website www.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 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 previously approved by the Court, I calculate that, on a time basis, I have incurred further remuneration of \$588,073.50 plus outlays of \$12,459.91 plus GST from 1 November 2017 to 28 February 2018 plus work undertaken in respect of the controllerships for the retirement village assets of \$13,320.50 plus GST as detailed in the table below and attached summaries.

	Remuneration (GST exclusive) \$	Outlays (GST exclusive) \$
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	588,073.50	12,459.91
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	9,666.50	0.86
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	729.00	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	1,241.00	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	960.50	0.86
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	423.00	0.86
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed) (Controllers Appointed)	300.50	0.86
Total	601,394.00	12,461.63

The fees for the four months from November 2017 to February 2018 average approximately \$150,348.50 per month.

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.

5.1 Actions taken during the Period

I provide below a summary of actions taken during the Period:

- Work undertaken in relation to the litigation matters, which among other things, include:
 - 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 auditor's strike out application including, amending the statement of 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;

- In addition to the above work undertaken in progressing the claim against the former auditors, work was also undertaken to comply with the court rule 222 request for documents;
 - 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;
 - Preparing an application to ASIC for an extension of the relief from complying with requirements to conduct financial audits and reviews of the Fund's accounts;
 - 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; and
 - Finalising outstanding residual matters from the sale of five retirement villages, including tax compliance issues.

5.2 Actions proposed to be taken in the next 12 months

I provide below a summary of the proposed actions to be taken in the next 12 months in relation to the winding up of the Fund:

- Take steps to finalise the various ongoing litigation matters outlined in this report;
- Progressing the claim against the former auditors as outlined at section 1.2.1 of this report which will likely include responding to any requests for particulars and reviewing and responding to the defence filed by the former auditors and otherwise progress the matter to trial;

- Take steps to determine or resolve the claim regarding the Bellpac bonds and realise this asset as outlined at section 1.2.2 of this report;
- Resolve the MPF claim against the proceeds of the Bonds;
- Resolve the position in relation to the distributions and redemptions paid to the Feeder Funds;
- Finalise all claims against guarantors;
- Dealing with any further FTI indemnity claims against the Fund including proof of debt claims per the regime set out in section 1.2.6.4 above;
- Maintain the accounts of the Fund and prepare management accounts and finalise the management accounts for the half year ending 31 December 2017 and for the year ending 30 June 2018;
- Resolve the issues relating to the investor units subscribed in foreign currencies in the investor management database, and obtain court approval to correct the member records of the FMIF;
- Maintain the investor management database;
- Subject to resolution of the litigation/court matters raised in section 4.3 above, obtain approval from the Court to process interim distributions to investors;
- Report to investors on a quarterly basis; and
- Make applications to Court for remuneration approval.

Please note that the timing to finalise some of the above matters will be subject to judgments being handed down by the Court.

5.3 Actions required to complete the winding up

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

- Finalise all litigation currently on foot and contemplated;
- Finalise any further FTI's indemnity claims against the Fund and any proof of debt claims;
- Discharge all liabilities of the Fund;
- Obtain a discharge of the DB security and of the DB Receivers;
- Obtain approval from the Court to process interim distributions and a final distribution to investors;
- Prepare final accounts for the Fund;
- Arrange for an auditor to audit the final accounts of the Fund after the Fund is wound up; and
- Obtain court orders in relation to the finalisation of my role in relation to the Fund.

I anticipate that the winding up of the Fund will be finalised in approximately 18 months, however, this may vary subject to the progression of the outstanding legal matters detailed in this report.



6. Queries

Should unit holders wish to advise of any changes in details or require further information, please contact BDO as follows:

BDO

GPO Box 457

Brisbane QLD 4001

Phone: +61 7 3237 5999

Fax: +61 7 3221 9227

Email: enquiries@lmfmif.com

Yours faithfully

A handwritten signature in dark ink, appearing to read 'David Whyte', with a long, sweeping horizontal stroke underneath.

David Whyte
Receiver

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
LM First Mortgage Income Fund (Receivers & Managers Appointed)

EMPLOYEE	POSITION	Fees		Assets		Creditors		Trade On		Investigations		Appointments	
		Rate	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs
Leisa Rafter	Partner	680	6.1	4,148.00	6.1	4,148.00						26.4	15,312.00
David Whyte	Partner	580	116.8	67,744.00	33.6	19,488.00	13.6	7,888.00	43.2	25,056.00			
Clark Jarrold	Partner	580	45.9	26,622.00	45.9	26,622.00							
Mark Whittaker	Partner	560	16.7	9,352.00	16.7	9,352.00							
John Garrard	Senior Manager	540	2.5	1,350.00	2.5	1,350.00							
Craig Jenkins	Partner	515	1.0	515.00					1.0	515.00			
Craig Jenkins	Partner	500	11.8	5,900.00					11.8	5,900.00			
Eric Leeuwendaal	Executive Director	495	418.1	206,959.50	266.6	131,967.00	47.1	23,314.50	76.1	37,669.50	26.9	13,315.50	693.00
Samuel Alexander	Manager	450	6.1	2,745.00	6.1	2,745.00							
Chris Demeyere	Manager	430	9.0	3,870.00	9.0	3,870.00							
Julie Pagcu	Senior Manager	400	8.4	3,360.00					8.4	3,360.00			
Julie Pagcu	Senior Manager	385	24.4	9,394.00	24.4	9,394.00							
Ainsley Watt	Senior Accountant I	350	350.0	122,500.00	47.7	16,695.00	165.6	57,960.00	112.1	39,235.00	8.7	3,045.00	5,565.00
Joanna Lane	Senior Consultant II	280	0.4	112.00	0.4	112.00							
Reuben Tham	Senior Consultant II	240	2.2	528.00	2.2	528.00							
Andrew Hack	Analyst I	225	2.4	540.00	2.4	540.00							
Sarah Cunningham	Team Assistant	215	0.1	21.50								0.1	21.50
Andrew Whittaker	Accountant II	215	67.6	14,534.00			63.5	13,652.50			3.1	666.50	215.00
Antoinette Fielding	Accountant II	215	9.9	2,128.50	0.6	129.00	9.3	1,999.50					
Antoinette Fielding	Accountant II	175	146.8	25,690.00	4.1	717.50	117.3	20,527.50	12.9	2,257.50	6.8	1,190.00	997.50
George Lethbridge	Undergraduate	175	126.3	22,102.50	38.2	6,685.00	83.0	14,525.00	1.1	192.50	2.6	455.00	245.00
Ryan Whyte	Undergraduate	175	305.7	53,497.50	24.2	4,235.00	209.0	36,575.00	7.1	1,242.50	44.2	7,735.00	3,710.00
Brooke Streidl	Team Assistant	130	3.1	403.00	1.8	234.00			1.3	169.00			
Emma Gatti	Junior Practice Assistant	120	0.4	48.00					0.4	48.00			
Aoife Hattingh	Team Assistant	95	42.2	4,009.00								42.2	4,009.00
TOTALS			1,723.9	588,073.50	532.5	238,811.50	708.4	176,442.00	275.4	115,645.00	92.6	25,407.00	30,768.00
			(GST)	96,807.35									
TOTALING GST				646,880.85									
AVERAGE HOURLY RATE			341		346		249		220		266		217

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
Bridgewater Lake Estate Pty Limited (Controllers Appointed)

Employee	Position	Totals		Task Area	
		Rate	hrs	Trade On	Administration
			hrs	hrs	hrs
Eric Leeuwendal	Executive Director	495	0.8	396.00	396.00
Ainsley Watt	Senior Accountant I	350	1.2	420.00	1.0
Sarah Cunningham	Team Assistant	215	1.4	301.00	1.4
Ryan Whyte	Undergraduate	175	0.6	105.00	0.6
Maira Hattingh	Team Assistant	95	0.2	19.00	0.2
TOTALS			4.2	1,241.00	3.2
				124.10	
				1,365.10	
				295	
				466	
				2742	

Note: All amounts exclude GST unless otherwise noted

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area
			hrs	\$	
Sarah Cunningham	Team Assistant	215	0.4	86.00	Administration
Antoinette Fielding	Accountant II	175	0.3	52.50	
Ryan Whyte	Undergraduate	175	0.6	105.00	
Maira Hattingh	Team Assistant	95	0.6	57.00	
TOTALS			1.9	300.50	
			GST	30.05	
			TOTAL INC GST	330.55	
			AVERAGE HOURLY RATE	158	

Note: All amounts exclude GST unless otherwise noted

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018

OYST Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Total Fee		Assets		Creditors		Trade Qn		Investment		Administration	
			Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Leta Rafter	Partner	680	1.2	816.00	1.2	816.00			0.3	174.00				
David Whyte	Partner	580	0.3	174.00					0.9	445.50				
Eric Leeuwendal	Executive Director	495	1.6	792.00	0.5	247.50	0.2	99.00						
Samuel Alexander	Manager	450	5.1	2,295.00	5.1	2,295.00								
Ainsley Watt	Senior Accountant I	350	9.0	3,150.00	0.8	280.00	1.0	350.00	3.6	1,260.00	0.5	175.00	3.1	1,085.00
Reuben Tham	Senior Consultant II	240	6.1	1,464.00	6.1	1,464.00								
Sarah Cunningham	Team Assistant	215	1.9	408.50									1.9	408.50
Antoinette Fielding	Accountant II	215	0.2	43.00									0.2	43.00
Andrew Whittaker	Accountant II	215	1.2	258.00							1.2	258.00		
Ryan Whyte	Undergraduate	175	1.0	175.00									1.0	175.00
Sarah Matthews	Team Assistant	150	0.1	15.00	0.1	15.00								
Molra Hattlingh	Team Assistant	95	0.8	76.00									0.8	76.00
TOTALS			28.5	9,666.50	13.0	5,177.50	1.2	449.00	4.8	1,079.50	1.7	435.00	7.0	2,497.50
			GST	966.65										
			TOTAL IN GST	10,633.15										
			AVERAGE HOURLY RATE	339										

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
Pinevale Villas Morayfield Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	\$
			hrs	hrs		
Ainsley Watt	Senior Accountant I	350	0.5	0.5	Administration	175.00
Sarah Cunningham	Team Assistant	215	2.0	2.0	Administration	430.00
Ryan Whyte	Undergraduate	175	0.6	0.6	Administration	105.00
Moirra Hattingh	Team Assistant	95	0.2	0.2	Administration	19.00
TOTALS			3.3	3.3		729.00
				GST		72.90
				TOTAL INC GST		801.90
				AVERAGE HOURLY RATE		221

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
Redland Bay Leisure Life Pty Ltd (Controllers Appointed)

Employer	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	Administration
Ainsley Watt	Senior Accountant I	350	0.5	175.00	0.5	175.00
Sarah Cunningham	Team Assistant	215	2.7	580.50	2.7	580.50
Antoinette Fielding	Accountant II	175	0.3	52.50	0.3	52.50
Ryan Whyte	Undergraduate	175	0.6	105.00	0.6	105.00
Maira Hattingh	Team Assistant	95	0.5	47.50	0.5	47.50
TOTALS			4.6	960.50	4.6	960.50
			GST	96.05		
			TOTAL INC GST	1,056.55		
			AVERAGE HOURLY RATE	208		
						209

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2017 to 28 February 2018
Redland Bay Leisure Life Development Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	hrs	\$
Ainsley Watt	Senior Accountant I	350	0.5	175.00	0.5	175.00
Sarah Cunningham	Team Assistant	215	0.2	43.00	0.2	43.00
Antoinette Fielding	Accountant II	175	0.3	52.50	0.3	52.50
Ryan Whyte	Undergraduate	175	0.6	105.00	0.6	105.00
Maira Hattingh	Team Assistant	95	0.5	47.50	0.5	47.50
TOTALS			2.1	423.00	2.1	423.00
			GST	42.30		
			TOTAL INC GST	465.30		
			AVERAGE HOURLY RATE	201		201

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 November 2017 to 28 February 2018

Entity	Expense Type				Total (\$ Ex GST)
	Postage	Printing	Search Fee	General	
LM First Mortgage Income Fund (Receivers & Managers Appointed)	9,834.94	325.20	70.77	2,229.00	12,459.91
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Controllers Appointed)	0.86				0.86
OVST Pty Ltd (Controllers Appointed)	0.86				0.86
Redland Bay Leisure Life Pty Ltd (Controllers Appointed)	0.86				0.86
Redland Bay Leisure Life Development Pty Ltd (Controllers Appointed)	0.86				0.86
TOTAL					12,463.35
GST					1,246.34
TOTAL INC GST					13,709.69



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Australia

29 March 2018

TO WHOM IT MAY CONCERN

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

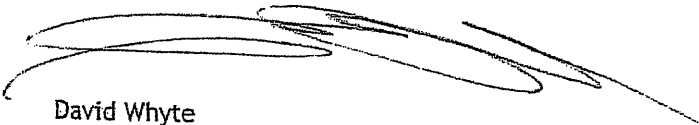
I refer to my appointment as the Receiver of the Fund's assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution by Order of the Supreme Court of Queensland on 8 August 2013.

I provide an update on the estimated unit price of the fund as at 31 December 2017, calculated as follows:

	\$
Total Value of Fund Assets as at 31 December 2017 (net of land tax and rates)	72,037,943
Less Creditors and Other Payables	3,795,852
Total Net Value of Fund Assets	68,242,091
Total Number of Units	478,100,386
Unit Price	14.3 cents

Should you have any queries in respect of the above, please contact Ryan Whyte of my office on (07) 3237 5921.

Yours faithfully,


David Whyte
Receiver

TO THE INVESTOR AS ADDRESSED

29 June 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 22nd 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 March 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 since my last report dated 29 March 2018 in the following respects:

- Two of the three proceedings commenced by the MPF against the Fund's assets for total claims of \$24.1m plus interest have been discontinued and I am taking steps for the third to be either prosecuted by the MPF or discontinued (refer section 2.1);
- I am in discussions with the Receivers and Managers (McGrathNicol) regarding their retirement and they have advised that they expect to retire within one month;
- The proceedings against the Feeder Funds have been progressed with court orders being made on 13 June 2018 which included the granting of leave to proceed against LMIM (being a company in liquidation), placing the proceedings on the commercial list and directing the parties to undertake mediation by 28 September 2018 (refer section 2.6);
- Prior to the mediation of the Feeder Fund claim, I intend applying to court to seek orders to correct the member register relating to foreign currency investors where I have identified errors in the management of same (refer section 4.2);
- Should the Receivers and Managers have resigned, the Feeder Fund claims are settled at mediation and the proof of debt process has been completed by FTI as set out at section 2.7.2 of this report, I intend applying to court to allow an interim distribution to investors. An update will be provided in my next report to investors by 30 September 2018;

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

- Cash at bank as at 31 May 2018 was \$70,209,210;
- The estimated return to investors is currently 13.0 to 14.2 cents per unit as detailed at Section 4.1 below and before taking into account future costs and recoveries from legal proceedings on foot;

- The claim against the directors, LMIM and MPF for \$15.5M plus interest, has not settled and the matter is now being progressed towards a trial which is likely to be held in the first half of 2019 (refer section 2.3);
- Orders for progressing the claim against the former auditors were made by the Court on 29 May 2018. The effect of these orders was to set a timetable for further progressing the matter. Further details are provided in Section 2.4 below;
- Settlement of the Bellpac Liquidator's \$8M Bonds litigation has progressed however, the remaining condition precedent to settlement has been further extended to 31 August 2018. This is expected to realise \$6.3M for the benefit of investors (refer section 2.5).

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.

2.1.2 AIIS Loan Claim

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

The MPF 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.

This claim was filed on 16 December 2015 and the Statement of Claim was served on 28 November 2016. Since then no steps have been taken in the proceeding, and the MPF has not required a defence. I therefore took steps to request that the MPF either expeditiously progress its claim or discontinue the proceeding, failing which I intend to apply to Court to be joined as a defendant, to defend the claims made against assets of the FMIF, and then actively seek to bring the matter to closure.

2.2 Position of the Secured Creditor

Following the discontinuance of the two proceedings brought by the MPF for claims totalling \$24.1m plus interest, I have been in discussions with the DB Receivers about their retirement. They have recently advised that they expect to retire within one month.

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.

While attempts to settle the proceedings had been continuing in relation to these proceedings and those proceedings referred to in section 2.1.1 above, I continued to take steps to progress the proceedings including:

- As at 6 April 2018 all director defendants, except for John Francis O'Sullivan and LMIM in its own right have filed Amended Defences;
- I have filed Replies to the Amended Defences received and made requests for further particulars which have all been responded to;
- 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, the proceedings have not settled following settlement discussions. Accordingly, I am now progressing these proceedings to a trial. Progress on the steps set out in the timetable following the review hearing held on 14 March 2018, are as follows:

- An Amended Defence of the 1st director defendant (being Peter Drake) was filed and served by 23 March 2018. This has been completed.;
- The Replies to the further Amended Defences of the 3rd and 4th defendants were to be filed and served on 29 March 2018. This has been completed;
- The Reply to the Amended Defence of the 1st defendant was filed and served by 6 April 2018. This has been completed;
- Replies to the Amended Defences of the 2nd, 6th and 8th defendants were to be filed and served by 20 April 2018. This has been completed;
- Further disclosure was required to be undertaken by myself, the 1st, 2nd, 3rd, 4th, 6th and 8th defendants by 20 April 2018. The 1st defendant made minor further disclosure on 20 April 2018. I also made minor further disclosure on 20 April 2018. The other defendants did not make any further disclosure;
- The Draft Trial Index has been completed, bar a few minor matters and the Assigned Loans matter which has now been added to the replies to the defendants;
- The Draft Trial Index was forwarded to the defendants on 1 June 2018, with a response requested by 27 July 2018;

- The next review hearing date is set for 16 August 2018 when it is hoped a trial date can be set for the first half of 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.

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

- On 29 May 2018 the Court handed down the following orders:
 - The parties' costs of the defendants' application filed 27 April 2016 and of the defendants' amended application filed 15 December 2016 are reserved;
 - The defendants serve any request for further and better particulars of the Third Further Amended Statement of Claim, other than paragraphs 121 and 123, by 15 June 2018. This has been done;

- The plaintiff respond to the defendants request for further and better particulars by 10 August 2018;
- The plaintiff file and serve its application to amend its claim, and any Fourth Further Amended Statement of Claim, by 15 June 2018;
- The defendants advise the plaintiff whether they consent to or oppose the plaintiff's application to amend its claim by 29 June 2018;
- If the defendants oppose the plaintiff's application:
 - The defendants file and serve any evidence in response to the plaintiff's application by 13 July 2018;
 - The plaintiff file and serve its written submissions in support of its application by 27 July 2018;
 - The defendants file and serve their written submissions in opposition to the plaintiff's application by 10 August 2018.
- The matter is listed for a Review and for hearing of the plaintiff's application, on a date to be fixed on or after 20 August 2018;
- On 15 June 2018, in accordance with the Order dated 29 May 2018, I caused the application for leave to amend the Claim and the supporting affidavit to be filed in the Court. I will respond appropriately to the balance of the timetable handed down by the Court.

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 sunset date of the HOA to complete the condition precedent to obtain approval from the Court or shareholders was further extended by agreement to 31 August 2018 to provide more time for WCL to obtain the required documents needed for submission to their shareholders prior to the meeting of shareholders;
- 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 an 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 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 ICPAIF would otherwise have been entitled as referred to in the amended statement of claim;
- WMIF in the sum of \$9,432,090.76 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the WMIF would otherwise have been entitled as referred to in the amended statement of claim.
- In October 2017, I caused to be filed an application under Section 59 of the Trusts Act (1973) (QLD) to seek directions in relation to how the differing interests of LMIM are to be represented in the proceedings and an application under Section 500 of the Corporations Act (2001) to seek leave to proceed against LMIM (which is required because it is in liquidation) (the Applications);
- The receivers for the CPAIF and ICPAIF (Grant Thornton) advised they would not consent to my Section 59 application unless orders are made:
 - that their reasonable costs and fees be fixed by the Court and paid out of the FMIF up to them preparing and filing a defence and considering any Reply filed by me;
 - that I disclose to them certain books and records as requested by them.
- The parties consented to adjourn the hearing of the Applications (which was originally set down on 8 December 2017) to a date to be fixed.

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

- 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 2009;
- 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.lmfwmif.com;
- The parties are directed to attend a mediation to be completed by 28 September 2018.

In summary if the Court grants the relief sought against the Feeder Funds and putting aside any other recoveries for the benefit of investors:

- the CPAIF and ICPAIF are not likely to receive any distribution in the winding up of the FMIF;
- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF;
- 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 will keep investors updated as to the progress of this claim.

2.7 Liquidators of LMIM (FTI Consulting)

2.7.1 Remuneration claim

As advised in my previous reports to investors, the orders handed down in relation to FTI's ongoing role and extent of their powers and responsibilities 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.

The judgement regarding FTI's remuneration and orders made in relation to FTI's remuneration claim and indemnity claim are available on the websites www.lmfwmif.com and www.lminvestmentadministration.com.

As the judgement had been handed down, I requested FTI to provide details of any additional remuneration and costs incurred subsequent to the remuneration claimed in the above mentioned court application.

FTI has informed me that for the period since late 2015 and up to 30 April 2018 they have incurred additional remuneration and expenses of \$363,929 plus GST. FTI have advised that they propose to make application to the court for the approval of the remuneration shortly.

FTI have provided me with these figures so that the Fund may properly record the expenses in the management accounts and provide an updated estimated return to investors. I have yet to receive details of these amounts claimed and FTI have advised these amounts are subject to change based on the formulation of its application for court approval.

Discussions with FTI have been ongoing, however no further formal steps in the proceeding have been taken since my last report to investors.

2.7.2 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.

Following agreement with FTI as to the proposed amendment to the court order which will be submitted to the court for approval, 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" as described in previous reports to investors, and if so, a set off against that claim may be able to be made.

2.7.3 Claim filed against LMIM

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

- In November 2016, I caused LMIM as RE of the FMIF to commence a proceeding against LMIM in relation to certain transactions to avoid possible expiry of the statutory limitation periods for making the claims;
- This claim alleges that, *inter alia*, LMIM breached its duties to members of the FMIF by:

- causing to be paid out of assets of the FMIF management fees in advance of it becoming entitled to payment of same;
- overpaying management fees to itself out of assets of the FMIF;
- causing to be paid to LMA additional fees purportedly for loan management and controllership services;
- directing payments to be made by the MPF, purportedly in satisfaction of liabilities owed by the MPF to the FMIF, to be paid to itself as RE of the feeder funds;
- Following further investigations, an amended claim and statement of claim and consolidated particulars have been filed and served on LMIM;
- Steps have been taken to prepare an application under Section 59 of the Trusts Act (1973) (QLD) 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.

Since my last report to investors, further work has been undertaken to quantify the claim for lost interest on the pre-paid management fees, and further instructions have been provided to Counsel to enable affidavit material in support of the directions application to be settled.

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.

3. Management Accounts

As advised in my previous report, the management accounts for the half year ending 31 December 2017 are available on the website www.lmfimif.com.

The management accounts for the year ending 30 June 2018 will be uploaded to the website www.lmfimif.com by 30 September 2018.

4. Investor Information

4.1 Estimated Return to Investors

I provide an estimated return to Investors of between 13.0 cents and 14.2 cents per unit as at 31 May 2018, calculated as follows:

Description	\$ Low	\$ High
Cash at bank	70,209,210	70,209,201
Other assets (interest receivable, foreign currency accounts and amount for security for litigation costs)	350,848	1,389,677
Estimated Assets Position	70,560,058	71,598,888
Less:		
Other unsecured creditors (includes remuneration approved but not paid)	7,230,339	2,501,274
FTI Fees & legal expenses advised (subject to approval) - refer to Section 2.7 for further details - maximum amount shown	694,756	694,756
Receivers and Managers' fees (DB Receivers)	75,262	75,262
Receiver's fees & outlays (BDO) (including controllerships)	246,103	246,103
Receiver's legal fees (BDO)	274,627	274,627
Total Liabilities	8,521,088	3,792,023
Estimated net amount available to investors as at 31 May 2018	62,038,970	67,806,865
Total investor units (as at 31 December 2016)	478,100,386	478,100,386
Estimated return in the dollar	0.130	0.142

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 the claim filed by the MPF Trustee with respect to the AIIS loan as the prospects of a successful claim against the Fund is unknown, however, as detailed earlier in this report, I am hopeful that all claims relating to the MPF matters will be brought to a conclusion shortly.



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 am currently calculating the effect of these errors on each of the foreign currency investors and intend applying to court seeking orders to rectify the register of members before 30 September 2018.

4.3 Distributions to Investors

Once the DB Receivers have retired and funds released to me, 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.

I am also required to seek the directions of the Court before proceeding with the next distribution.

Prior to making the application to court, I will require to correct the members register for the foreign currency investors and resolve the proceedings against the Feeder Funds and where a mediation is to be held by 28 September 2018.

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 30 September 2018.

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

The ninth application for the approval of my remuneration for the period 1 November 2017 to 30 April 2018 was heard on 21 June 2018. The Court ordered that my remuneration for this period be fixed in the amount of \$1,041,907.90 (inclusive of GST). In addition, the Court approved my remuneration sought of \$22,306.90 (inclusive of GST) in respect of 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 previously approved by the Court and the ninth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$227,274.50 plus outlays of \$1,203.66 plus GST from 1 May 2018 to 31 May 2018 plus work undertaken in respect of the controllerships for the retirement village assets of \$7,027.50 plus GST as detailed in the table below and attached summaries.

Remuneration incurred for May 2018	Remuneration \$ (GST excl.)	Outlays \$ (GST excl.)
LM First Mortgage Income Fund (Receivers & Managers Appointed) (Receiver Appointed)	227,274.50	1,203.66
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	2,102.00	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	-	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	4,081.00	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd	569.50	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	133.50	-



Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	141.50	-
Total	234,302.00	1,203.66

The key matters addressed during the period 1 May 2018 to 31 May 2018 were:

- Work undertaken in relation to the litigation matters detailed in Sections 2, which among other things, include:
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits.;
 - 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;
 - Negotiations with FTI to resolve various outstanding issues relating to FTI's proceedings and the winding up of the FMIF;;
 - Progressing the claim against LMIM;
 - Dealing with the proceedings by the Trustee of the MPF against LMIM in which relief is sought against assets of the Fund.
- Liaising with various parties in relation to the potential for the DB Receiver's 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 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 November 2017 to 30 April 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 black ink, appearing to read 'David Whyte', with a stylized flourish at the end.

David Whyte
Receiver

LM First Mortgage Income Fund (Receivers & Managers Appointed)

[illegible]

Note: All amounts exclude GST unless otherwise noted



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Fax: +61 7 3221 9227
www.bdo.com.au

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Disbursements for the period 1 May 2018 to 31 May 2018

LM First Mortgage Income Fund (Receivers & Managers Appointed)

Expense Type	Amount (\$ ex GST)
Airfares	444.66
Search Fee	751.81
Postage	7.19
TOTAL	1,203.66
GST	120.37
TOTAL INC GST	1,324.03

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 May 2018 Bridgewater Lake Estate Pty Limited (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Trade Ch	Administration
Leisa Rafter	Partner	680	0.3	204.00	0.3	204.00
David Whyte	Partner	580	0.1	58.00	0.1	58.00
Samuel Alexander	Manager	450	1.1	495.00	1.1	495.00
Ainsley Watt	Senior Accountant I	350	4.1	1,435.00	1.1	385.00
Reuben Tham	Senior Consultant II	280	3.9	1,092.00	3.9	1,092.00
George Lethbridge	Undergraduate	175	4.5	787.50		787.50
Maira Hattingh	Team Assistant	95	0.1	9.50		9.50
TOTALS			14.1	4,081.00	6.5	2,234.00
			GST		7.6	1,847.00
			TOTAL INC GST			
			AVERAGE HOURLY RATE		314	245

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 May 2018 to 31 May 2018
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Controllers Appointed)

Employee	Position	Rate	hrs	Totals	Task Area	
					Administration	hrs
Ainsley Watt	Senior Accountant I	350	0.1	35.00		0.1
George Lethbridge	Undergraduate	175	3.0	525.00		3.0
Maira Hattingh	Team Assistant	95	0.1	9.50		0.1
TOTALS				569.50		3.2
				56.95		
				TOTAL INC GST		
				626.45		
				AVERAGE HOURLY RATE		
				178		

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 May 2018 to 31 May 2018

OVST Pty Ltd (Controllors Appointed)

Employee	Position	Rate	hrs	Totals		Task Area	
				\$	hrs	Trade On	Administration
Samuel Alexander	Manager	450	0.6	270.00	0.6	270.00	
Ainsley Watt	Senior Accountant I	350	1.2	420.00			1.2
Reuben Thaim	Senior Consultant II	280	3.1	868.00	3.1	868.00	
George Lethbridge	Undergraduate	175	3.0	525.00			3.0
Maira Hattingh	Team Assistant	95	0.2	19.00			0.2
TOTALS				2,102.00	3.7	1,138.00	4.4
				GST			
				210.20			
TOTAL INC GST				2,312.20			
AVERAGE HOURLY RATE				260		308	2.3

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 May 2018 to 31 May 2018
Redland Bay Leisure Life Pty Ltd (Controllers Appointed)

Employee	Position	Rate	hrs	Totals		Task Area	
				\$	hrs	Administration	\$
Ainsley Watt	Senior Accountant I	350	0.2	70.00	0.2		70.00
George Lethbridge	Undergraduate	175	0.2	35.00	0.2		35.00
Molra Hattingh	Team Assistant	95	0.3	28.50	0.3		28.50
		TOTALS	0.7	133.50	0.7		133.50
			GST	13.35			
			TOTAL INC GST	146.85			
			AVERAGE HOURLY RATE	191			191

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 May 2018 to 31 May 2018 Redland Bay Leisure Life Development Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	\$
Ainsley Watt	Senior Accountant I	350	0.2	70.00	0.2	70.00
George Lethbridge	Undergraduate	175	0.3	52.50	0.3	52.50
Maira Hattingh	Team Assistant	95	0.2	19.00	0.2	19.00
TOTALS			0.7	141.50	0.7	141.50
			GST	14.15		
			TOTAL INC GST	155.65		
			AVERAGE HOURLY RATE	202		202

Note: All amounts exclude GST unless otherwise noted



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TO THE INVESTOR AS ADDRESSED

28 September 2018

**LM FIRST MORTGAGE INCOME FUND
(RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)
ARSN 089 343 288 (THE FUND OR FMIF)**

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

I now provide my 23rd update report to investors. This report is prepared in accordance with the Exemption granted by the Australian Securities and Investments Commission (ASIC Exemption) in relation to financial reporting obligations of the Fund. In this regard, the ASIC Exemption requires a report to be made available to investors for each period of six months starting on 1 January 2016, which includes the following information:

- (i) Information about the progress and status of the winding up of the Fund, including details of:
 - A. The actions taken during the period;
 - B. The actions required to complete the winding up;
 - C. The actions proposed to be taken in the next 12 months; and
 - D. The expected time to complete the winding up.
- (ii) The financial position of the Fund as at the last day of the relevant period (based on available information);
- (iii) Financial information about receipts (and payments) of the Fund during the period; and
- (iv) The following information at the end of the period:
 - A. The value of the Fund's property; and
 - B. The potential return to investors.

This report covers, inter alia, the period 1 January 2018 to 30 June 2018 (the Period).

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

1. Progress and Status of the Winding Up

1.1 Position of the Secured Creditor, the potential claim by KordaMentha, the trustee of the LM Managed Performance Fund ('MPF') and claims filed against the Fund

1.1.1 Proceedings by the Trustee of the MPF against LMIM and the Fund

1.1.1.1 Assigned Loans Claims

I refer to my previous updates to investors in relation to these proceedings, in which the Trustee of the MPF (MPF) is the plaintiff, and the defendants are LMIM, and myself as Receiver of the property of the FMIF.

The relief claimed by the Trustee of the MPF in these proceedings included equitable compensation against LMIM and claims against the assets of the FMIF in the total sum of about \$24.1 million plus interest.

The MPF Trustee applied to the Court for directions as to whether it would be justified discontinuing the proceedings, and on 7 June 2018 the Court directed it would be. Notices of discontinuance have accordingly been filed in both proceedings.

1.1.1.2 AIIS Loan Claim

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

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

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

1.1.1.1 Position of the Secured Creditor

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

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

I refer to my previous updates to investors in relation to a statement of claim I caused to be filed in the Supreme Court of Queensland, against a number of parties, including the MPF Trustee, in respect of loss allegedly suffered by the FMIF as a result of an amount paid to the MPF in the Bellpac litigation matter. The claim is for approximately \$15.5M plus interest.

As previously advised, the proceedings have not settled following settlement discussions. Accordingly, I am now progressing these proceedings to a trial. Progress on the steps set out in the timetable following the review hearing held on 14 March 2018, are as follows:

- An Amended Defence of the 1st director defendant (being Peter Drake) was filed and served by 23 March 2018. This has been completed;
- The Replies to the further Amended Defences of the 3rd and 4th defendants were to be filed and served on 29 March 2018. This has been completed;

- The Reply to the Amended Defence of the 1st defendant was filed and served by 6 April 2018. This has been completed;
- Replies to the Amended Defences of the 2nd, 6th and 8th defendants were to be filed and served by 20 April 2018. This has been completed;
- Further disclosure was required to be undertaken by myself, the 1st, 2nd, 3rd, 4th, 6th and 8th defendants by 20 April 2018. The 1st defendant made minor further disclosure on 20 April 2018. I also made minor further disclosure on 20 April 2018. The other defendants did not make any further disclosure;
- A draft trial bundle of documents was served on the defendants on 1 June 2018. The proceedings were listed for review on 16 August 2018 following which a timetable was implemented to progress the proceedings to a trial in March/April 2019. Specifically, and amongst other things, it was ordered that the plaintiff serve an amended draft trial bundle by 14 September 2018 which included additional documents relevant to various matters in issue in the proceedings. This has been completed and the defendants' response is due by 5 October 2018. Following the finalisation of the contents of the trial bundle, affidavit evidence is to be exchanged by the parties along a timeline from November 2018 to February 2019 in advance of trial.

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

1.2 Legal Actions/Potential Recoveries

1.2.1 Claim against the former auditors

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

- Public examinations (PEs) of the former auditors and certain directors and former directors (Directors) of LM Investment Management Limited (In Liquidation) were conducted in 2015;
- Following the PEs, a further amended statement of claim was filed by me and served on the former auditors of the Fund on 14 April 2016;
- The former auditors filed and served on me a strike-out application and supporting affidavit on 27 April 2016 (amended on 15 December 2016) seeking orders to strike-out certain parts of the statement of claim;
- At the hearing of the former auditors' strike out application, the Court granted my application and placed the proceedings on the commercial list and reserved its decision on the auditor's strike out application;
- The reserved decision from the hearing of the strike out application was handed down on 8 May 2017. Orders were made that the statement of claim be amended to delete certain causes of action and to include details of the quantification of loss;
- In accordance with the Court's judgment, the parties were required to agree the form of orders including a timetable for the filing of a further amended statement of claim and the costs of the former auditors' strike-out application;
- The amended statement of claim was filed on 20 November 2017 and served on the former auditors. Details of the loss has been included in the amended statement of claim which has been calculated (at its highest) in excess of \$200 million. A significant amount of work has been undertaken in this regard, including quantifying the loss at 6 monthly hypothetical

winding up dates between 1 July 2009 and 1 January 2013 being the estimated additional costs and expenses incurred by the Fund as a consequence of the alleged delay in winding up the Fund;

- I have received a number of requests pursuant to Rule 222 of the Court Rules (Rules) from the former auditors to provide documents referred to in the amended statement of claim which requests have been responded to;
- On 29 May 2018, the Court made Orders for the filing of the proposed application to amend the Claim, as well as for the auditors to make a request for further and better particulars of the further amended statement of claim.

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

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

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

1.2.2 Bellpac Proceedings

In addition to the claim filed and served against the MPF in relation to a loss suffered by the Fund from litigation pertaining to the Bellpac loan noted at item 1 above, there is another matter relating to Bellpac that has been progressed during the Period, as detailed below.

Wollongong Coal Ltd (WCL) - \$10 million Convertible Bonds

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

- The liquidator of Bellpac has received the settlement amount of \$2 million from WCL in relation to the claim for redemption of the \$2 million Bonds held in WCL;
- The defendants' appeal of the decision of the Court which acknowledged that Bellpac (under the control of a liquidator) is the true owner of the \$8 million convertible bonds was unsuccessful;
- In January 2016, the Bellpac Liquidator applied for the conversion of the \$8 million Bonds to shares. As WCL did not issue all of the shares as required under the terms of the Bonds, the Bellpac Liquidator brought proceedings against WCL seeking orders requiring WCL to perform its obligation to redeem the Bonds converted to shares outside of the required time;
- The Bellpac liquidator and WCL have entered into a binding heads of agreement (HOA) which relates to the settlement of the litigation commenced against WCL. The terms of the heads of agreement include that WCL will pay to Bellpac a settlement sum of \$6.3 million in return for certain releases and Bellpac returning or cancelling the WCL shares issued to Bellpac.

- The conditions precedent to the settlement with WCL include obtaining necessary approvals to undertake the settlement transactions. In this regard:
 - The Bellpac Liquidator has obtained creditor approval to enter into the settlement with WCL;
 - The Court declined to exercise its discretion on WCL's application for approval to acquire and or cancel Bellpac's holding of WCL shares. WCL is now preparing to seek shareholder approval.
- The Trustees of the MPF (MPF) have demanded from the Liquidator circa \$680K plus interest out of the proceeds of the Bonds for repayment of funding the MPF allegedly made for the Bonds litigation from late 2010 to early 2013. The MPF has also reserved its rights in relation to claiming 35% of the funds realised from the successful Bonds proceedings.

Developments since my last update to investors are as follows:

- The remaining condition precedent (Sunset Date) to the settlement with WCL has been extended several times from the original Sunset Date and the Liquidator was successful in negotiating as part of the agreement to extend the Sunset Date that WCL pay interest at 3% p.a. from 2 October 2017 until settlement. The last agreed extension granted is to 18 October 2018 and will be reviewed subject to WCL's progress in calling the EGM and committing to the payment of \$6.3M;
- In relation to the MPF claim for reimbursement for funding as referred to above, the Bellpac Liquidator has confirmed he will not take any step adverse to either the MPF or FMIF without first giving the parties 7 days' notice.

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

1.2.3 Redemptions and Distributions paid to Class B Unit Holders

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

- Investigations have been undertaken via the PE conducted in 2015 and subsequent thereto in relation to redemptions and distributions paid to the Class B unit holders (Feeder Funds) when the Fund had suspended redemptions and distributions to other classes of members;
- The Feeder Funds are the LM Currency Protected Australian Income Fund (CPAIF), the LM Institutional Currency Protected Australian Income Fund (ICPAIF) and the LM Wholesale First Mortgage Income Fund (WMIF);
- On 28 July 2017, I caused to be filed an amended statement of claim against LMIM and the Feeder Funds which was then formally served on the parties. The relief sought in the claim includes declarations to withhold from distributions or payments otherwise payable from the Fund on the final winding up of the Fund to:
 - CPAIF in the sum of \$40,583,109.06 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the CPAIF would otherwise have been entitled as referred to in the amended statement of claim;
 - ICPAIF in the sum of \$5,044,118.30 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the ICPAIF would otherwise have been entitled as referred to in the amended statement of claim;

- WMIF in the sum of \$9,432,090.76 plus interest, as adjusted for the difference between the sum paid for capital distributions in early to mid-2013 and the amount the WMIF would otherwise have been entitled as referred to in the amended statement of claim.
- In October 2017, I caused to be filed an application under Section 59 of the Trusts Act (1973) (QLD) to seek directions in relation to how the differing interests of LMIM are to be represented in the proceedings and an application under Section 500 of the Corporations Act (2001) to seek leave to proceed against LMIM (which is required because it is in liquidation) (the Applications);
- The receivers for the CPAIF and ICPAIF (Grant Thornton) advised they would not consent to my Section 59 application unless orders are made:
 - that their reasonable costs and fees be fixed by the Court and paid out of the FMIF up to them preparing and filing a defence and considering any Reply filed by me;
 - that I disclose to them certain books and records as requested by them.
- The parties consented to adjourn the hearing of the Applications (which was originally set down on 8 December 2017) to a date to be fixed;
- A Commercial List Application and Statement was filed with the Court on 23 April 2018.
- On 24 April 2018 the Court proposed that the Commercial List Application and the Applications be listed for hearing on 29 May 2018.
- At the hearing on 29 May 2018, the Court indicated it was content for:
 - the proceeding to be placed on the Commercial List; and
 - the proceeding be referred to mediation.
- However, the Court noted that the final form of the orders to be issued by it would be required to take into account how the individual members of the Feeder Funds were to be notified of the proceeding and with that, given the opportunity to apply to the Court to be heard in the proceeding or represented in the mediation.
- Following the hearing on 29 May 2018, draft orders were circulated by my solicitors and agreed to. The matter was then re-listed for a hearing on 13 June 2018 in order for the final form of the Orders to be reviewed by the Court.
- On 13 June 2018 orders were made granting the orders sought in the Applications and the Commercial List Application including that I represent the interests of the LM First Mortgage Income Fund in the proceedings and that the ICPAIF and the CPAIF be represented by Mr Said Jahani of Grant Thornton. The interests of LMIM are to be represented by Mr John Park of FTI Consulting. Further, it was ordered that mediation between the parties take place prior to 28 September 2018;

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

In summary if the Court grants the relief sought against the Feeder Funds and putting aside any other recoveries for the benefit of investors:

- the CPAIF and ICPAIF are not likely to receive any distribution in the winding up of the FMIF;

- the WMIF is likely to receive a smaller distribution than it otherwise would have been entitled, subject to the outcome of litigation against the FMIF and future operating costs of the FMIF; and
- the FMIF can use the funds which otherwise would have been paid to the Feeder Funds for distributions to investors generally instead and, as a result, the return to other investors (Class A and Class C) is likely to increase.

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

1.2.4 Various claims against guarantors

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

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

1.2.5 Liquidators of LMIM (FTI Consulting)

1.2.5.1 Applications by FTI for remuneration or expense approval

I refer to my previous reports to investors.

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

The judgement regarding and orders made in relation to FTI's first remuneration claim and indemnity claim are available on the websites www.lmfimf.com and www.lminvestmentadministration.com.

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

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

1.2.5.2 Indemnity claim against the Fund and proof of debt process

If a debt or claim is admitted by FTI in the winding up of LMIM and a claim for indemnity out of the FMIF with respect to such debt or claim is identified, I summarise the process as outlined in the Court Orders of 17 December 2015 as follows:

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

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

I am hopeful that the process required by the 17 December 2015 orders can be completed in the near future so the quantum of any creditor claims against the Fund can be ascertained and dealt with as soon as possible. These claims may be subject to the “clear accounts rule” as described in previous reports to investors, and if so, a set off against that claim may be available.

1.2.5.3 Claim filed against LMIM

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

- In November 2016, I caused LMIM as RE of the FMIF to commence a proceeding against LMIM in relation to certain transactions to avoid possible expiry of the statutory limitation periods for making the claims;
- This claim alleges that, *inter alia*, LMIM breached its duties to members of the FMIF by:
 - causing to be paid out of assets of the FMIF management fees in advance of it becoming entitled to payment of same;
 - overpaying management fees to itself out of assets of the FMIF;
 - causing to be paid to LMA additional fees purportedly for loan management and controllership services;
 - directing payments to be made by the MPF, purportedly in satisfaction of liabilities owed by the MPF to the FMIF, to be paid to itself as RE of the feeder funds.
- Following further investigations, an amended claim and statement of claim and consolidated particulars have been filed and served on LMIM;
- I applied to Court for directions under section 59 of the Trusts Act (1973) (QLD) in relation to how the differing interests of the parties (LMIM as RE of the FMIF, and LMIM in its personal capacity) are to be represented in the proceedings, for leave to proceed under Section 500 of the Corporations Act and a stay of the proceeding until further order.

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

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

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

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

2. Financial Position of the Fund

The management accounts for the year ending 30 June 2018 are available on the website www.lmfimif.com on the page titled 'Financial Statements & Other Key Documents'.

A summary of the financial position of the Fund as at 30 June 2018 is provided below.

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

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

2.1 Fund Assets

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

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

2.2 Fund Liabilities

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

The Distributions payable balance relates to distributions that appear to have been declared prior to the date of the Receiver's appointment which were not paid, or have not cleared or were returned unclaimed.

The Payables balance primarily consists of trade creditors, custodian fees, legal fees, receiver's fees and fees and expenses claimed by FTI, which remain unpaid as at 30 June 2018.

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

2.3 Net Assets Attributable to Unit Holders

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

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

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

Investments made in Foreign Currencies

Investigations undertaken by BDO have identified that the number of units held by investors who invested in foreign currencies appears to be incorrectly recorded in the membership records of the FMIF.

It appears that when LMIM transferred the member records of the FMIF to a new database in 2010 the number of units of investors who invested in a foreign currency were incorrectly recorded in the new database, by allocating to the investors concerned one unit in the FMIF for each unit of foreign currency invested, rather than one unit in the FMIF for each \$1AUD invested (after the foreign currency amount invested had been converted to AUD at the applicable exchange rate) in accordance with the PDS and Constitution.

I am currently calculating the effect of these errors on each of the foreign currency investors and am considering the options available to correct the register in a time and cost efficient manner.

3. Receipts and Payments of the Fund

The receipts and payments of the Fund, as maintained by the DB Receivers, for the period 1 January 2018 to 30 June 2018 is summarised in the table below.

Receipts	
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Receipts

Loan Reductions	1,724,179.36
Interest	692,886.63
GST received	122,614.32
Other income/refunds received	4,350.18
Total receipts	2,544,030.49

Payments

Bank charges	23.30
Legal fees	886,113.32
Loan draws	4,089.50
IT expenses and record management/storage	97,332.29
Receivers & Managers' Fees	212,812.60
Receivers & Managers' Disbursements	180.36
Receiver's Fees	1,064,214.80
Receiver's Disbursements	23,347.00
Other payments	2,562.14
Total payments	2,290,675.31
Net receipts (payments)	253,355.18

4. Investor Information

4.1 Estimated Return to Investors

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

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

4.2 Estimated Unit Price as at 30 June 2018

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

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

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

4.3 Distributions to Investors

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

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

4.4 Ongoing Reporting to Investors

Reports will be distributed to investors in accordance with the preferred method of correspondence recorded for each investor in the Fund's database. In order to assist in reducing distribution costs, it would be appreciated if investors could nominate an email address as their preferred method to receive correspondence. Investors may update their details as outlined in Section 4.5 below. For those investors that do not have an email address, correspondence will continue to be sent to you via post.

My next report to investors will be issued by 31 December 2018.



4.5 Investors Queries

Arrangements are in place to ensure that any reasonable questions asked by members of the FMIF, about the winding up of the FMIF, will be answered within a reasonable period of time (generally seven days) and without charge to the investor.

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

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

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

It is preferable that all questions about the winding up, or communications are sent via email to enquiries@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 nine applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2018.

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

In addition to the remuneration previously approved by the Court I calculate that, on a time basis, I have incurred further remuneration of \$1,092,979.50 plus outlays of \$18,725.89 plus GST from 1 May 2018 to 31 August 2018 plus work undertaken in respect of the controllerships for the retirement village assets of \$22,014.50 plus GST as detailed in the table below and attached summaries.

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

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

5.1 Actions taken during the Period

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

- Work undertaken in relation to the litigation matters detailed at Section 1.1 and 1.2 of this report, which include, among other things:
 - taking steps to procure the discontinuance of the proceedings by the Trustee of the MPF against LMIM and the Fund. See Sections 1.1.1.1 Assigned Loans and Section 1.1.1.2 AIIIS Loan Claim. The Assigned Loans claims were discontinued in June 2018 and the AIIIS claims discontinued in August 2018;
 - Liaising with various parties in relation to the DB Receiver's retirement;
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits following public examinations held, amending the claim and conducting substantial work finalising the quantification of the loss suffered by the Fund. See Section 1.2.1 above;
 - Progressing the Feeder Fund claim including obtaining directions for a mediation to be held, which is currently scheduled to take place on 5 and 6 November 2018. See Section 1.2.3 above;
 - Progressing preparation of an application to Court for directions and leave to proceed in respect of the proceedings against LMIM, and a stay of the proceeding until further order, which was granted on 25 July 2018. See Section 1.2.5.3 above;
 - Monitoring and providing assistance to the Liquidator of Bellpac regarding the \$8M bonds claim, progressing this matter, and also dealing with the MPF's claim for

reimbursement of litigation funding costs from the proceeds of the Bonds. See section 1.2.2 above;

- Progressing the claim against the MPF and others with a trial set for March /April 2019. See Section 1.1.2;
- Progressing claims against guarantors. See Section 1.2.4 above.
- Maintaining the management accounts of the Fund and preparing the management accounts for the half year ending 31 December 2017 and year ending 30 June 2018;
- Undertaking the investor management function for approximately 4,500 investors including answering queries on the winding up of the Fund and maintaining the investment database, including any change in details or transfer of units;
- Preparing affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 November 2018 to 30 April 2018;
- Finalising outstanding matters from the sale of five retirement villages, including tax compliance issues;
- Further investigations into the migration of the Composer investor management database to the AX investor management databases;
- Attending to compliance with the conditions of ASIC's grant of relief from the requirements of a half year review and annual audit of the financial reports and compliance plan;
- Preparation of unit price calculations; and
- Preparation of update reports to investors in March and June 2018.

5.2 Actions required to complete the winding up

I provide below a summary of the proposed actions to be taken in the next 12 months in relation to the winding up of the Fund:

- Take steps to finalise the various ongoing litigation matters outlined in this report;
- Continue to monitor and assist the Bellpac liquidator to achieve settlement or determination of the \$8M bonds claim;
- Resolve the MPF claim against the proceeds of the Bonds;
- Finalise all claims against guarantors;
- Resolve or have determined FTI's indemnity claims against the Fund;
- Maintain the accounts of the Fund and prepare management accounts;
- Resolve the issues relating to the investor units subscribed in foreign currencies in the investor management database, and obtain court approval to correct the member records of the FMIF;
- Maintain the investor management database;
- Subject to the retirement of the DB receivers and obtaining the necessary approvals from the Court, process an interim distribution to investors;
- Report to investors on a quarterly basis; and
- Make applications to Court for remuneration approval.

Please note that the timing to finalise some of the above matters will be subject to *inter alia*, progress of the outstanding legal actions.

5.3 Actions required to complete the winding up

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

- Finalise all litigation currently on foot and contemplated;
- Resolve or have determined FTI's further remuneration or indemnity claims against the Fund;
- Discharge all liabilities of the Fund;
- Obtain a discharge of the DB security and of the DB Receivers;
- Obtain approval from the Court to process interim distributions and a final distribution to investors;
- Prepare final accounts for the Fund;
- Arrange for an auditor to audit the final accounts of the Fund after the Fund is wound up; and
- Obtain court orders in relation to the finalisation of my role in relation to the Fund.


I anticipate that the winding up of the Fund will be finalised in approximately 18 to 24 months, however, this may vary subject to the progression of the outstanding legal matters detailed in this report.

6. Queries

Should unit holders wish to advise of any changes in details or require further information, please contact BDO as follows:

BDO
GPO Box 457
Brisbane QLD 4001
Phone: +61 7 3237 5999
Fax: +61 7 3221 9227
Email: enquiries@lmfmif.com

Yours sincerely



David Whyte
Receiver

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

Name	Position	Hours	Fees			Professionals			Total			Total
			0.4	284.00	392.2	209,559.00	0.4	284.00	0.4	284.00	0.6	357.00
Lea Rafter	Partner	710	392.2	209,559.00	392.2	209,559.00	0.4	284.00	0.4	284.00	0.6	357.00
Clark Jarrold	Partner	995	83.4	49,453.00	31.9	18,940.50	8.8	5,236.00	42.1	25,049.50	0.6	357.00
David Whyte	Partner	995	130.6	75,748.00	130.6	75,748.00	12.8	7,424.00	5.3	3,074.00	24.5	14,210.00
Clark Jarrold	Partner	995	85.3	49,474.00	42.7	24,766.00	12.8	7,424.00	5.3	3,074.00	24.5	14,210.00
David Whyte	Partner	995	85.3	49,474.00	42.7	24,766.00	12.8	7,424.00	5.3	3,074.00	24.5	14,210.00
Gerry Collins	Consultant	590	0.9	522.00	0.9	522.00	0.9	508.50	0.9	508.50	1.7	867.00
Mark Whittaker	Partner	570	3.0	1,710.00	3.0	1,710.00	3.0	1,710.00	3.0	1,710.00	3.0	1,710.00
John Garrard	Senior Manager	565	0.9	508.50	0.9	508.50	0.9	508.50	0.9	508.50	0.9	508.50
Craig Jenkins	Partner	915	30.2	15,553.00	30.2	15,553.00	30.2	15,553.00	30.2	15,553.00	30.2	15,553.00
Charles Haines	Associate Director	510	1.7	867.00	1.7	867.00	1.7	867.00	1.7	867.00	1.7	867.00
Alastair Raphael	Senior Manager	485	1.3	630.50	1.3	630.50	1.3	630.50	1.3	630.50	1.3	630.50
Arthur Taylor	Senior Manager	485	285.1	138,273.50	282.4	136,964.00	1.5	737.50	1.2	582.00	80.1	37,647.00
Samuel Alexander	Senior Manager	470	238.8	121,656.00	189.8	79,806.00	4.8	2,356.00	4.1	1,972.00	80.1	37,647.00
Chris Domesyere	Manager	445	2.7	1,215.00	2.7	1,215.00	2.7	1,215.00	2.7	1,215.00	2.7	1,215.00
Michael Dharmaratne	Manager	445	5.8	2,581.00	5.8	2,581.00	5.8	2,581.00	5.8	2,581.00	5.8	2,581.00
Chris Domesyere	Manager	445	26.2	11,659.00	26.2	11,659.00	26.2	11,659.00	26.2	11,659.00	26.2	11,659.00
Chris Domesyere	Manager	430	1.5	645.00	1.5	645.00	1.5	645.00	1.5	645.00	1.5	645.00
Julie Pagu	Associate Director	430	264.8	113,864.00	264.8	113,864.00	152.8	61,120.00	152.8	61,120.00	152.8	61,120.00
Julie Pagu	Associate Director	400	152.8	61,120.00	152.8	61,120.00	152.8	61,120.00	152.8	61,120.00	152.8	61,120.00
Alastair Watt	Senior Accountant - Ex	360	186.1	99,796.00	50.0	18,000.00	65.7	23,652.00	39.5	14,220.00	10.9	3,924.00
Alastair Watt	Senior Accountant - Ex	350	138.6	48,580.00	33.4	11,690.00	69.3	24,255.00	10.0	3,500.00	18.9	6,415.00
Reuben Tham	Senior Consultant	295	2.2	649.00	2.2	649.00	2.2	649.00	2.2	649.00	2.2	649.00
Antoinette Fielding	Graduate Accountant	220	77.0	16,540.00	3.0	660.00	42.4	13,728.00	4.0	880.00	0.2	44.00
Elaine Carroll	Graduate Accountant	220	53.8	11,834.00	37.4	8,228.00	41.6	9,192.00	4.0	880.00	5.2	1,144.00
George Leithbridge	Graduate Accountant	220	72.5	15,950.00	37.4	8,228.00	29.7	6,534.00	2.6	559.00	4.1	902.00
Sarah Cunningham	Accounting Assistant	220	1.3	286.00	1.1	236.50	98.1	12,491.50	1.3	286.00	1.3	286.00
Antoinette Fielding	Graduate Accountant	215	61.8	13,287.00	1.1	236.50	98.1	12,491.50	2.6	559.00	0.2	44.00
Elaine Carroll	Graduate Accountant	215	30.4	6,536.00	30.4	6,536.00	30.4	6,536.00	4.0	880.00	5.2	1,144.00
Ryan Whyte	Undergraduate	180	91.9	16,542.00	45.7	8,226.00	43.6	7,848.00	1.0	180.00	1.6	288.00
George Leithbridge	Graduate Accountant	175	92.7	16,222.50	26.3	4,602.50	53.7	9,397.50	4.7	822.50	8.0	1,400.00
Ryan Whyte	Undergraduate	175	75.7	13,247.50	5.7	997.50	37.6	6,560.00	18.4	3,220.00	12.7	2,222.50
Brooks Stredell	Practice Assistant	130	4.3	559.00	4.3	559.00	4.3	559.00	1.0	180.00	1.6	288.00
Jafila Rose	Practice Assistant	130	88.9	11,557.00	88.9	11,557.00	88.9	11,557.00	4.7	822.50	8.0	1,400.00
Leah Clark	Practice Assistant	130	3.0	390.00	3.0	390.00	3.0	390.00	1.0	180.00	1.6	288.00
Tanya Bennett	Practice Assistant	130	11.0	1,430.00	11.0	1,430.00	11.0	1,430.00	1.0	180.00	1.6	288.00
Mofra Hattigh	Practice Assistant	100	19.7	1,970.00	19.7	1,970.00	19.7	1,970.00	1.0	180.00	1.6	288.00
Moira Hattigh	Practice Assistant	95	18.2	1,739.00	18.2	1,739.00	18.2	1,739.00	1.0	180.00	1.6	288.00
TOTALS			1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00

TOTALS	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00
TOTALS	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00	1,997.9250	1,997,925.00

Note: All amounts exclude GST unless otherwise noted

Disbursements for the period 1 May 2018 to 31 August 2018

LM First Mortgage Income Fund (Receivers & Managers Appointed)

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

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 August 2018
Bridgewater Lake Estate Pty Limited (Controllers Appointed)

Employee	Position	Totals		Task Area	
		Rate	hrs	Trade On	Administration
		\$	hrs	\$	hrs
Leisa Rafter	Partner	680	0.3	204.00	
David Whyte	Partner	580	0.1	58.00	
Samuel Alexander	Senior Manager	450	1.1	495.00	
Ainsley Watt	Senior Accountant - Experienced	360	0.9	324.00	0.7
Ainsley Watt	Senior Accountant - Experienced	350	4.1	1,435.00	3.0
Reuben Tham	Senior Consultant	280	3.9	1,092.00	
George Lethbridge	Graduate Accountant	220	2.3	506.00	
Eloise Carroll	Graduate Accountant	220	1.1	242.00	0.6
George Lethbridge	Graduate Accountant	175	4.5	787.50	4.5
Maira Hattingh	Practice Assistant	95	0.1	9.50	0.1
TOTALS			18.4	5,153.00	11.2
				2,116.00	4,037.00
			GST		
			TOTAL INC GST		
				280	
			AVERAGE HOURLY RATE	236	

Note: All amounts exclude GST unless otherwise noted



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

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

Note: All amounts exclude GST unless otherwise noted

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

OVST Pty Ltd (Controllers Appointed)

Employee	Position	Totals		Task Area	
		Rate	hrs	Trade On	Administration
		\$	hrs	\$	hrs
Leisa Rafter	Partner	680	0.3	204.00	
Samuel Alexander	Senior Manager	450	1.9	855.00	
Ainsley Watt	Senior Accountant - Experienced	360	0.9	324.00	0.7
Ainsley Watt	Senior Accountant - Experienced	350	1.6	560.00	1.6
Reuben Tham	Senior Consultant	280	3.1	868.00	
George Lethbridge	Graduate Accountant	220	2.6	572.00	2.6
Eloise Carroll	Graduate Accountant	220	1.7	374.00	1.6
George Lethbridge	Graduate Accountant	175	3.0	525.00	3.0
Maira Hatttigh	Practice Assistant	95	0.2	19.00	0.2
TOTALS			15.3	4,301.00	5.7
			GST	430.10	
TOTAL INC GST				4,731.10	
AVERAGE HOURLY RATE				361	395

Note: All amounts exclude GST unless otherwise noted

REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2018 to 31 August 2018
Pinevale Villas Morayfield Pty Ltd (Controllers Appointed)

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Trade On	Administration
Angie Hicks	Partner	710	1.3	923.00	1.3	923.00
Ainsley Watt	Senior Accountant - Experienced	360	3.0	1,080.00	0.3	108.00
Reuben Tham	Senior Consultant	295	1.8	531.00	1.8	531.00
George Lethbridge	Graduate Accountant	220	4.0	880.00		880.00
Sarah Cunningham	Accounting Assistant	220	1.9	418.00		418.00
Jessica Fuller	Graduate Consultant	200	11.5	2,300.00	11.5	2,300.00
TOTALS			23.5	6,132.00	14.9	3,862.00
			GST	613.20		
			TOTAL INC GST	6,745.20		
			AVERAGE HOURLY RATE	261		254

Note: All amounts exclude GST unless otherwise noted

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

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Trade On	Administration
Leisa Rafter	Partner	710	0.8	568.00	0.8	568.00
John Garrard	Senior Manager	565	0.3	169.50	0.3	169.50
Susan Rix	Partner	520	0.3	156.00		156.00
Ainsley Watt	Senior Accountant - Experienced	360	0.8	288.00		288.00
Ainsley Watt	Senior Accountant - Experienced	350	0.2	70.00		70.00
George Lethbridge	Graduate Accountant	220	6.0	1,320.00		1,320.00
Eloise Carroll	Graduate Accountant	220	1.2	264.00	0.8	88.00
Ryan Whyte	Undergraduate	180	0.1	18.00		18.00
George Lethbridge	Graduate Accountant	175	0.2	35.00		35.00
Ashley Richardson	Administration Assistant	175	0.2	35.00		35.00
Cristen Glockling	Practice Assistant	155	0.3	46.50	0.3	46.50
Maira Hattingh	Practice Assistant	95	0.3	28.50		28.50
TOTALS			10.7	2,998.50	2.2	949.00
				GST		299.85
				TOTAL INC GST		3,298.35
				AVERAGE HOURLY RATE		436
						240

Note: All amounts exclude GST unless otherwise noted

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

Employee	Position	Rate	hrs	Totals		Task Area	
				\$	hrs	Trade On	Administration
Ainsley Watt	Senior Accountant - Experienced	360	0.8	288.00			0.8
Ainsley Watt	Senior Accountant - Experienced	350	0.2	70.00			0.2
George Lethbridge	Graduate Accountant	220	3.2	704.00	0.7	154.00	2.5
Eloise Carroll	Graduate Accountant	220	1.3	286.00			1.3
Jessica Fuller	Graduate Consultant	200	2.0	400.00	2.0	400.00	
George Lethbridge	Graduate Accountant	175	0.3	52.50			0.3
Maira Hattingh	Practice Assistant	95	0.2	19.00			0.2
TOTALS			8.0	1,819.50	2.7	554.00	5.3
				GST			
				181.95			
				TOTAL INC GST			
				2,001.45			
				AVERAGE HOURLY RATE			
				227		205	219

Note: All amounts exclude GST unless otherwise noted



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
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Level 11, 112 Creek St
Sydney NSW 2000
GPO Box 457 Sydney NSW 2001
Australia

28 September 2018

TO WHOM IT MAY CONCERN

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

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

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

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

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

Yours sincerely,

David Whyte
Receiver

From: Jonathan Henry [<mailto:jhenry@mcgrathnicol.com>]
Sent: Thursday, 20 September 2018 5:43 PM
To: Park, John; David Whyte (David.Whyte@bdo.com.au)
Cc: Jason Preston; Anthony Connelly; Grace Chessman
Subject: LM Investments - R&M retirement

Dear John and David,

Please be advised that we expect to retire from LM Investments in the next seven days.

In recognition of the relationship between LMFMIF and the estates you both manage, please advise if any outstanding issues require our attention before we retire.

Regards,

Jonathan Henry
Partner



Level 12, 20 Martin Place, Sydney NSW 2000 Australia
T +61 2 9338 2643 M +61 437 092 393
McGrathNicol jhenry@mcgrathnicol.com



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FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for 10,706,853 dollars and 84 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breaches of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$10,706,853.84	Refer to Annexure 1, documents referred to in Annexure 1, and the Loan Statement.

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for \$16,820,356 dollars and 30 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty	\$16,820,356.30	Refer to annexed statement of facts and loan statements.

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature: _____

Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund

Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: scslisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for \$5,128,071 dollars and 34 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$5,128,071.34	Refer to annexed statement of claim, statement of facts and loan statement.

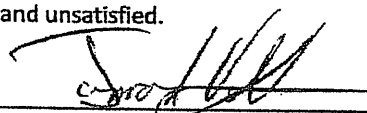
To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund

Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for \$4,153,731.32 dollars and 32 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$4,153,731.32	Refer to Annexure 1, the documents referred to in Annexure 1, and the claim balance calculation.

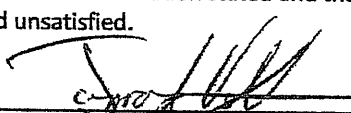
To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018
Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for 19,948,253 dollars and 18 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breaches of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$19,948,253.18	Refer to Annexure 1, the documents referred to in Annexure 1, and the Loan Statement.

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity.

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for \$18,982,171 dollars and 51 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$18,982,171.51	Refer to annexed statement of claim, statements of facts and loan statement.

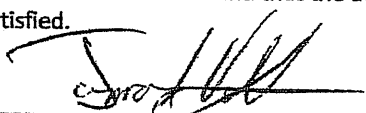
To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund

Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: scelisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

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Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$1,281,024	Refer to Annexure 1, the documents referred to in Annexure 1, and the claim balance calculation.

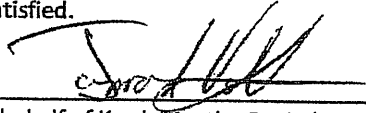
To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(Insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018
Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: scisby@kordamentha.com AND jvillani@kordamentha.com

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To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for 2,320,118 dollars and 62 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by reason of LMIM's breaches of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$2,320,118.62	Refer to Annexure 1, the documents referred to in Annexure 1, and the claim balance calculation.

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature: _____

Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: scslsby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

This is to state that the company was on 19 March 2013, and still is, justly and truly indebted to: KordaMentha Pty Ltd in its capacity as trustee of the LM Managed Performance Fund of C/- KordaMentha, Level 14, 12 Creek Street, Brisbane full name, ABN and address of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor) for 254,676,177 dollars and 58 cents

Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty; and	\$254,676,177.58, being the account balance as at 18 March 2018	Refer to particulars below and the attached loan statement and supporting documents.
	Equitable compensation for breach of duty to exercise the same care that an ordinary, prudent person of business would exercise in the conduct of that business were it his or her own		

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

\$

Signed by (select option):

- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied

Signature: 

Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund
Address: Level 14, 12 Creek Street, Brisbane QLD

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Do you wish to receive all future reports and correspondence from our office via email?

Yes

No

☐☐

Email:.....

Particulars**Claim 1****Basis of claim**

Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.

Particulars

LMIM placed itself in a position of conflict by, among other things, lending to an entity (Maddison Estate Pty Ltd) whose ultimate beneficial owner was Peter Drake.

Peter Drake was:

1. the sole shareholder and director of LMIM, the trustee of the MPF
2. a voting member of the MPF Credit Committee, which approved the loan (including substantial variations) to Maddison
3. the sole director of Coomera Ridge Pty Ltd the owner of the land the subject of the Maddison Estate Development Coomera Ridge Pty Ltd derived significant benefit from the loan to Maddison because Maddison used the loan to:
 - a. discharge liabilities Coomera Ridge Pty Ltd had to Suncorp (first mortgagee); and
 - b. develop the land.
4. the sole director and shareholder of LM Administration Pty Ltd and a beneficiary of the LMA Trust. LM Administration derived significant fees from Madison (\$250k to \$350k per month) pursuant to a Development Management Agreement. Those fees were paid from Maddison's MPF loan account.

Amount

\$254,676,177.58, being the account balance as at 18 March 2018

Claim 2**Basis of claim**

Equitable compensation for breach of duty to exercise the same care that an ordinary, prudent person of business would exercise in the conduct of that business were it his or her own

Particulars

Breach of Duties

LMIM failed to discharge the abovementioned duties. In particular, LMIM failed to:

- (a) exercise:
 - (i) the same care that an ordinary, prudent person of business would exercise in the conduct of that business were it his or her own; and
 - (ii) the care, diligence and skill a prudent person engaged in that profession would exercise in managing the affairs of other persons.

In that regard, no prudent person engaged in LMIM's business would have made available the Facility in the circumstances, including:

- (A) with the deficient level of the security provided;
 - (B) without requiring any material borrower equity;
 - (C) without obtaining regular independent point in time valuations of the Land; and
 - (D) without requiring supporting evidence, from time to time, from an independent quantity surveyor confirming the value of works performed.
- (b) (or failed to properly), take into account both prior to making available the Facility, and from time to time when increasing the limit of the Facility:
 - (i) the risk of capital or income loss;
 - (ii) the likely income return;
 - (iii) the length of the term of the proposed investment; and
 - (iv) the liquidity and marketability of the proposed investment during, and at the end of, the term of the Facility.

Had LMIM done so, it would not have made the Facility available to Maddison, and/or would not have allowed the Facility to be drawn to the extent it was.

Quantum/Amount

\$254,676,177.58, being the account balance as at 18 March 2018

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Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breach of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF not to place itself in a position of conflict of interest or duty.	\$17,307,395.78	Refer to Annexure 1, the documents referred to in Annexure 1, and the Loan Statement

To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(Insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

Date	Drawer	Acceptor	Amount	Due Date

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- ☐ I am the creditor personally.
- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature: 

Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund

Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes No
x ☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Liquidator of LM Investment Management Limited (in Liquidation) ACN 077 208 461 (the "Company") in its own capacity

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Particulars of the debt are:

Date	Consideration (state how the debt arose)	Amount	Remarks (include details of voucher substantiating payment)
Various	Equitable compensation for, among other things, the loss caused by LMIM's breaches of the duty it owed as trustee of the MPF, to the beneficiaries of the MPF to: (i) adhere to the terms of the trust constituted by the MPF as set out in the Trust Deed from to time; and (ii) exercise the same care that an ordinary, prudent person of business would exercise in the conduct of that business were it his or her own.	\$12,340,378	Refer to Statement of Claim.

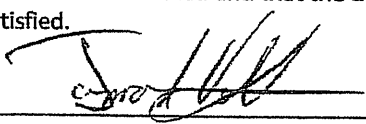
To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it.

(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).

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Signed by (select option):

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- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.
- ☒ I am the creditor's agent authorised in writing to make this statement in writing. I know the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

Signature:  Dated: 2 October 2018

Name: Jarrod Villani on behalf of KordaMentha Pty Ltd as trustee of the LM Managed Performance Fund

Address: Level 14, 12 Creek Street, Brisbane QLD

RECEIVE REPORTS BY EMAIL

Do you wish to receive all future reports and correspondence from our office via email?

Yes

No

☒

☐

Email: sclisby@kordamentha.com AND jvillani@kordamentha.com

RUSSELLS

20 July 2018

Our Ref: AJT:JTW:20170918

Tucker & Cowen
Level 15, 15 Adelaide Street
BRISBANE QLD 4000

By Email: anase@tuckercowen.com.au

Dear Colleagues

**LM Investment Management Limited (Receivers and Managers appointed) (in Liquidation) -ats-
LM Investment Management Limited (Receivers and Managers Appointed) (in Liquidation) as
responsible entity of the LM First Mortgage Income Fund
Supreme Court of Queensland Proceeding Number 11560 of 2016**

We refer to your correspondence of earlier today serving on LM Investment Management Limited (Receivers and Managers appointed) (in Liquidation) ("LMIM") and Mr John Park, the liquidator of LMIM, your client's application filed in Supreme Court of Queensland proceeding number 11560/16 returnable on Wednesday, 25 July 2018 ("the Application").

Having taken instructions from our clients, we confirm that:

1. Neither LMIM nor Mr Park will be appearing at the return of the Application on 25 July 2018 – the liquidators are without funds to deal with this matter; and
2. They will abide by the Order of the Court in respect of the Application.

Would you please tender this correspondence at the hearing on 25 July 2018 to inform the Court of our clients' position.

Please inform us of the outcome of the hearing next Wednesday.

Yours faithfully



Ashley Tiplady
Partner

Direct 07 3004 8833
Mobile 0419 727 626
ATiplady@RussellsLaw.com.au
20170918/2493167

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Brisbane / Sydney
Postal – GPO Box 1402, Brisbane QLD 4001 / Street – Level 18, 300 Queen Street, Brisbane QLD 4000
Telephone (07) 3004 8888 / Facsimile (07) 3004 8899
RussellsLaw.com.au

RUSSELLS

21 September 2018

Our Ref: AJT:JTW:20180543

Your Ref: Mr Schwarz

Mr David Schwarz
Tucker & Cowen
GPO Box 345
BRISBANE 4001

By Email: dschwarz@tuckercowen.com.au
anase@tuckercowen.com.au

Dear Colleagues

LM Investment Management Limited (Receivers and Managers Appointed) (In Liquidation)

Thank you for your letter dated 18 September 2018.

We note your observations about the powers of the Court to make orders and will bear your observations in mind when our client brings his application.

As for the resumed hearing date on 3 October 2018, the primary purpose of that hearing is to finalise the remuneration application. In that regard, we are waiting to hear from you with your client's response to the schedule that we provided to you on Tuesday, 18 September 2018 setting out the proper analysis of the available headroom within the existing remuneration approvals. Might we enquire when you will respond to us so that we know whether your client presses his objection, in which case we will need, at least, three or four days prior to the hearing on 3 October to prepare affidavit material. If the matter is going to be controversial, then your earliest response would be appreciated, so that there is time for our affidavit material to be served well before the 3rd, and your client having an opportunity to respond say, 2 days prior to the hearing.

As foreshadowed on 6 September 2018, we also intend to raise with His Honour some options about the future conduct of the dual appointments, with a view to presenting possible solutions to the problems currently being experienced. In that regard, we envisage providing to you, in the next few days, an application for directions and draft Order that sets out one or more of the options. It is not envisaged that an Order will be sought in those terms on 3 October 2018, but rather that the options be presented to His Honour and the application then be adjourned to a date to be fixed in order to allow for service on all parties who might appropriately be respondents to the application for directions.

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Brisbane / Sydney

Postal – GPO Box 1402, Brisbane QLD 4001 / Street – Level 18, 300 Queen Street, Brisbane QLD 4000

Telephone (07) 3004 8888 / Facsimile (07) 3004 8899

RussellsLaw.com.au

We note your client's views, as expressed in your letter, about any departure from the status quo and what will be in the best interests of the members of the FMIF.

We enquire if your client's position is that he considers that the current regime is working optimally, so far as he is concerned, such that there ought to be no change to the status quo?

In this regard, we ask for your client's specific response to the following questions, on the basis that we intend to tender this letter, and your response, at the hearing on 3 October 2018.

First, does your client and your firm maintain separate cost centres for discrete litigated proceedings; i.e., such that you are able to provide, without significant cost, a schedule of the amount of money claimed for remuneration and legal costs expended in relation to a claim?

Second, is there, in relation to each discrete legal proceeding, a budget for remuneration and legal expenses anticipated for that proceeding?


Third, if there is such a budget, is there any accounting done, either as the matter proceeds, or at the conclusion, of the actual remuneration and expenditure compared to the budget?

Fourth, in relation to the GST issue, if we can call it that, that has been ventilated between the parties since you raised in in November 2017, is there any way of identifying the remuneration and costs and expenses attributable to that issue?

Fifth, in relation to Mr Peden QC's outstanding invoice of 22 June 2017 (copy attached), being for the costs of the indemnity hearing in June 2017 (other than the four items totaling \$1,200 relating to the remuneration claim), is there any reason why that invoice (less the \$1,200) cannot now be paid from the FMIF, in full, notwithstanding that it was mistakenly left off the list of costs provided to you in February 2018?

We look forward to hearing from you.

Yours faithfully



Ashley Tiplady
Partner

Direct (07) 3004 8833
Mobile 0419 727 626
ATiplady@RussellsLaw.com.au
20180543/2526035

Tucker & Cowen Solicitors.

TCS Solicitors Pty. Ltd. / ACN 610 321 509

Level 15, 15 Adelaide St. Brisbane. Qld. 4000 / GPO Box 345. Brisbane. Qld. 4001.
Telephone. 07 300 300 00 / Facsimile. 07 300 300 33 / www.tuckercowen.com.au

Our reference: Mr Schwarz / Mr Nase

27 September 2018

Your reference: Mr Tiplady / Mr Walsh

Principals.
Richard Cowen.
David Schwarz.
Justin Marschke.
Daniel Davey.

Consultant.
David Tucker.

Mr Ashley Tiplady
Russells Lawyers
Brisbane Qld 4000

Email: atiplady@russellslaw.com.au
jwalsh@russellslaw.com.au

Special Counsel.
Geoff Hancock.
Alex Nase.
Brent Weston.
Marcelle Webster.

Dear Colleagues

Associates.
Emily Anderson.
James Morgan.
Scott Horsey.
Robert Tooth.
Paul Armit.
Wesley Hill.

Re: LM Investment Management Limited (In Liquidation) (Receivers & Managers Appointed) ("*LMIM*");
Park & Muller and LMIM as Responsible Entity of the LM First Mortgage Income Fund ("*FMIF*") v David Whyte
Supreme Court of Queensland Proceeding No. 3508/2015

1. Your client has foreshadowed an application for directions or orders concerning the future conduct of the winding up of the FMIF, having regard to the dual appointments of our respective clients.
2. We refer to our letter of 18 September 2018, and to your letter of 21 September 2018, received that evening, on this issue.
3. This letter responds to your letter's request that our client provide his views as to the current regime, and whether he considers it to be working optimally.
4. We note that we have not yet received any draft proposed application, nor been informed of the orders to be sought by the foreshadowed application, and this letter therefore assumes that any application to be made by your client will be in terms reflecting what was said by your client's Queen's Counsel in Court on 6 September 2018, as recited in our letter of 18 September 2018.

Mr Whyte's approach

5. It is appropriate to begin by identifying the way in which our client intends to approach your client's foreshadowed application.
6. Mr Whyte does not consider it to be his role, as a Court-appointed receiver and 'responsible person' of the FMIF, to 'enter the fray' in seeking either to preserve the *status quo*, or to seek some significantly altered regime.
7. He considers that his role is to provide such assistance to the Court in connection with your client's foreshadowed application as is reasonably necessary to enable the Court to make a fully informed decision as to the most optimal way to conduct the balance of the winding up of the FMIF, in terms of attempting to minimise duplication of work and any scope for controversy as to the allocation of responsibilities.
8. We note in this regard that his Honour clearly indicated in the recent hearing that our client, and we, should give consideration to the way in which the 'dual appointments' in the winding up of the FMIF might be better streamlined.

9. Our client's participation in without prejudice discussions to date have been on that basis and pursuant to that invitation, as is this letter.
10. In short, Mr Whyte considers that he has no relevant personal interest in the outcome of the foreshadowed application by your client, however he will do what he considers appropriate to best assist the Court to consider and determine how the winding up of the FMIF may most appropriately be concluded.

Assessment of the current regime

11. Your letter frames your client's foreshadowed application as one for orders as to possible solutions to "problems currently being experienced" in relation to the dual appointments of your client and ours.
12. Your letter does not identify with any specificity what your client considers those problems to be. We would have thought that your client could articulate those clearly, given that this foreshadowed application has been your client's initiative.
13. Nonetheless, as we stated in our letter of 18 September 2018, our client is open to the idea that some variation to the current regime may be appropriate.
14. It may be accepted, we think, that there will inevitably be some level of additional cost involved in the existence of multiple layers of insolvency practitioner appointments.
15. That additional cost was found to be justified by Justice Dalton and the Court of Appeal, for the reasons set out in their respective judgments.
16. Presently, those layers comprise:
 - (a) your client's appointment as the liquidator of LMIM;
 - (b) our client's appointment as receiver of the scheme property of the FMIF and as the person responsible for ensuring the winding up of the FMIF in accordance with its Constitution; and
 - (c) the appointment by Deutsche Bank AG ("DB") pursuant to its security of McGrathNicol as receivers and managers ("DB Receivers") of the FMIF property.
17. While that is a necessary consequence of the regime ordered by the Court in August 2013, our client has endeavoured to keep the level of any additional costs resulting from these layered appointments to a minimum.
18. In relation to the DB Receivers, our client agrees that their appointment no longer serves any useful purpose.
19. To that end, we are instructed that our client has been negotiating for some time with DB and the DB Receivers to procure their retirement as receivers and managers, and that they have informed our client that their retirement as receivers and managers is imminent.
20. Once that retirement occurs, that will, to some extent, streamline the processes involved in the winding up of the FMIF.
21. As to the relationship between our respective clients, his Honour's judgment in [2015] QSC 283 (the "Residual Power's Judgment") and the Orders of 17 December 2015 ("December Orders") have provided considerable clarity

and guidance as to each of their roles and responsibilities, and has minimised overlap in the carrying out of the substantive tasks required in the conduct of the winding up.

22. Looking forward, and without purporting to be completely comprehensive, our client considers that the following significant tasks remain in the winding up of the FMIF:

- (a) Completing the proof of debt process, pursuant to the December Orders.

We understand that your client has already called for proofs, and that the process envisaged by the December Orders is already well under way.

- (b) Progressing litigation which Mr Whyte has caused to be brought in the name of LMIM as responsible entity of the FMIF.

Substantial work continues to be ongoing in this category, including (not exclusively) in connection with Supreme Court proceeding 12317/14 commenced against LMIM, the former directors of LMIM and KordaMentha as trustee for the MPF (the "Bellpac proceeding"), which it is anticipated will be heard in 2019, and Supreme Court proceeding 2166/15, commenced against the former auditors of the FMIF, Ernst & Young (the "EY Proceedings").

Mr Whyte intends to continue to explore all reasonable opportunities for settlement of these proceedings, but is cautious not to do so prematurely at the cost of a more profitable settlement or determination in due course.

- (c) Distributing funds to the members of the FMIF.

Our client considers it to be desirable that there be a distribution to members, even an interim distribution, as soon as it is possible to do so.

Following the discontinuance of significant litigation against the FMIF earlier this year, making an interim distribution is now a reasonable possibility, subject to resolving the following three matters:

- (i) *First*, the register of the members of the FMIF needs to be rectified, to correct errors in the records of the number of units held by foreign currency investors.

Those errors occurred in 2010 when the register was transferred to a new database.

The process of identifying those errors is already underway, and Mr Whyte will cause an appropriate application for rectification to be brought once that process has been completed.

- (ii) *Second*, the proceedings which Mr Whyte has caused to be commenced against the Feeder Funds, being Supreme Court proceeding 13534/16 (the "Feeder Fund Proceedings"), needs to be resolved before any distributions can be made to the Feeder Funds, i.e. to LMIM as responsible entity of the CPAIF and the ICPAIF and Trilogy Funds Management Limited as the responsible entities of the WFMIF.

A mediation of the Feeder Fund Proceedings is scheduled to occur in early November 2018.

It may be possible to make an interim distribution to the other members of the FMIF, subject to resolution of the Feeder Fund Proceedings. This is something that our client is considering.

- (iii) *Third*, the Court must approve the making of any distribution, because Mr Whyte is directed by the December Orders not to make a distribution to the members without the authority of an order of the Court.

We anticipate that the Court would expect to be informed of what the liabilities of the FMIF are, prior to authorising an interim distribution from surplus funds. This would require completion of the process under the 17 December 2015 orders with respect your clients calling for and adjudicating upon proofs of debt in the liquidation of LMIM and notifying our client of any claims for indemnity from the FMIF with respect to such debts or claims, and for our client to adjudicate upon any such claims for indemnity from the FMIF. Our client considers that this process should be completed as soon as possible and that it ought not take long to complete.

- (d) Compliance with any financial reporting and audit obligations, and seeking the extension of the current ASIC exemptions obtained on the application of our client, should the current exemptions expire before the winding up is at the stage where the final audit should be undertaken.

Our client understands that the effect of the Residual Powers Judgment and the December Orders is that the audit is your client's responsibility if ASIC does not confer an exemption, and that he would assist your client as required. As you know, our client has been attending to the preparation of financial reports and provision of information to members of the FMIF in accordance with the ASIC exemptions (most recently pursuant to ASIC Instrument 18-0166).

- (e) Maintaining LMIM's Australian Financial Services Licence.

Our client understands this to be your client's responsibility, although our client expects that the costs incurred in discharging that responsibility would not be substantial.

- (f) Dealing with any claims for remuneration, costs or expenses of your client sought to be paid from the FMIF.

Our client has taken a position in relation to each such claim on behalf of and in the interests of the members of the FMIF, in circumstances where there would not otherwise have been a contradictor.

The additional costs associated with this process have, in our client's view, been necessitated by the positions taken by your client in relation to certain aspects of those claims.

They do not properly reflect a cost of the existence of multiple layers of insolvency practitioners. They are the cost of an independent contradictor maintaining reasonable and valuable positions on behalf of and for the benefit of the members of the FMIF.

Indeed, in relation to your client's application for indemnity heard in May 2017, our client sought and obtained judicial advice before continuing to the final hearing.

23. As is apparent from the above, Mr Whyte continues to be engaged in substantial and valuable work for the benefit of the members of the FMIF.
24. Certain responsibilities also remain with your client, including as set out above, and as further considered in the Residual Powers Judgment.

Our client's proposal

25. In the circumstances, our client considers that there may be merit in his being appointed as a special purpose Liquidator of LMIM, with responsibility for winding up the FMIF pursuant to its Constitution.
26. The orders appointing our client as special purpose Liquidator would need to clearly specify the things he is required or authorised to do (to the exclusion of your client) which would be limited to performing any functions, complying with any obligations, or exercising any powers, as Liquidator of LMIM, in the name of or on behalf of LMIM in its capacity as responsible entity of the FMIF, or under the Constitution of the FMIF.
27. This would include, for the avoidance of doubt, attending to complying with the financial reporting and audit requirements on behalf of LMIM as responsible entity of the FMIF (when the ASIC exemption expires), and attending to distribution of FMIF property at the conclusion of the winding up.
28. However, our client's view is that this should explicitly exclude any work relating to the proof of debt process pursuant to paragraphs 4 to 7 and 9 of the December Orders, as that process is already underway by your client, and is governed by the December Orders in such a way as to minimise the potential for conflicts of interest.
29. In our client's view, this arrangement would preserve the substantial and valuable work in progress by Mr Whyte, and would allocate further responsibilities to Mr Whyte as the insolvency practitioner with the greater detailed knowledge of the affairs of the FMIF through the conduct of its winding up to date.
30. In relation to the principal points of contention between our respective clients in the winding up of the FMIF to date, relating to your client's claims for remuneration and expenses from property of the FMIF, our client also considers that there is scope to minimise such disputation in the future.
31. Our client suggests that one means by which this may be achieved is for the Court to approve the payment of an amount of your client's future remuneration directly from the FMIF in a fixed periodic sum, without the need for any application to the Court for approval.
32. Our client suggests that an appropriate sum might be \$5,000 per month, however he is open to your client's views on the matter. This would reflect the work that your client is required to undertake into the future to maintain LMIM's AFSL which (once the other funds under your client's control have been wound up) would be largely for the benefit of the FMIF. As noted above, our client does not anticipate that the costs involved in that work would be significant.
33. If the amount of remuneration sought by your client from the FMIF were to exceed that threshold, your client would, of course, be at liberty to bring any application to Court to seek approval for the payment of a higher amount of remuneration from the FMIF.
34. If this proposal is to be presented to the Court, its terms would need to be set out in more detail, in draft orders in due course.

35. We would be grateful if you would provide us with any comments that your clients may have, in relation to this proposal.

Response to questions in letter dated 21 September 2018


36. Your letter asks about our client's remuneration and legal costs, in relation to litigation conducted by Mr Whyte on behalf of the members of the FMIF.¹
37. However, we understand that the purpose of your client's foreshadowed application is to reconsider the structure of the dual appointments of our respective clients.
38. As far as we and our client are able to discern, Mr Whyte's remuneration claims and expenses in the past, and any estimates of future remuneration and expenses, are simply not relevant to that issue.
39. That is particularly where it is not suggested, as we understand it, that any of the litigation conducted by Mr Whyte ought not to be conducted, or that it would be more efficiently conducted by someone else; no such suggestion has been made to us or to our client, and we would be surprised if it were to be suggested.
40. Our client will of course consider your questions again, if he receives a satisfactory explanation for how the information you have asked for is relevant to a problem perceived by your client in the conduct of the winding up of the FMIF by a dual administration.
41. We note, however, that insofar as your letter is directed to any aspect of the reasonableness of our client's remuneration for undertaking work in connection with the litigation in which he has been engaged in his capacity as receiver of the FMIF:-
- (a) Mr Whyte has provided substantial detail in relation to the work he has undertaken, in the affidavits that have been filed in support of his nine applications to date for approval and payment of remuneration;
 - (b) Your client (by your firm) has been served with those applications and supporting affidavits on each application (but we would be pleased to provide further copies should you wish); and
 - (c) On each application, Mr Whyte's claim for remuneration has been considered by the Court and, on each occasion, the Court has found Mr Whyte's remuneration to be reasonable and appropriate in all the circumstances; there has been no appeal from any of those Orders of the Court.
42. Otherwise, as to Mr Whyte's expenses to date, we observe that Mr Whyte has caused to be prepared half-yearly management accounts for the FMIF.
43. Beyond this material, which is all publicly available, our client does not consider that it is incumbent on him to respond to your questions, which appear to him to bear no relation to the application foreshadowed by your client.

Conclusion

¹ You have asked about the legal costs incurred by Mr Whyte, specifically with our firm. Of course, you will be aware that Mr Whyte has retained Gadens Lawyers, as well as this firm, to provide legal advice in respect of various matters and to act for him.

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44. We look forward to hearing from you in relation to the proposal outlined above and, in due course, to receiving any proposed application for our consideration.
45. We also ask that you give further consideration to the identification of the issues or problems that your client considers require the Court's further intervention, so that (if problems are identified beyond the broad issues outlined above) our client and we may give consideration to them. When deciding whether to bring such an application, your client ought to weigh up the costs of bringing such an application as against the costs savings expected to be achieved if the application is successful.
46. Please do not hesitate to contact us if you have any questions.

Yours faithfully



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Individual liability limited by a scheme approved under Professional Standards Legislation.