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TO THE INVESTOR AS ADDRESSED

31 March 2017

**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 seventeenth 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 July 2016 to 31 December 2016 (the period).

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 is the plaintiff, and the defendants are LMIM, and myself as receiver of the property of the FMIF. In these proceedings, the trustee of the MPF alleges that the entry into two Deeds of Assignment by LMIM in 2008, pursuant to which PTAL as custodian of the FMIF, assigned its right, title and interest in the securities that it held for two FMIF loans, to LMIM as trustee of the MPF, and the alleged payment of the Settlement Sum as consideration by LMIM as trustee of the MPF, breached duties owed by LMIM to members of the MPF. The relief claimed by the trustee of the MPF in these proceedings includes equitable compensation against LMIM and claims against assets of the FMIF in the total sum of about \$24.1 million plus interest.

I confirm that at the review hearing on 16 December 2016, the proceedings were adjourned to a date to be fixed as the parties wished to continue negotiations to settle the litigation in conjunction with the proceedings in both sections 1.1.1.2 and 1.1.1.3 below.

There have been no further steps taken in the proceedings since my previous update to investors.

1.1.1.2 AIIS Loan Claim

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

The MPF Trustee alleges in the proceeding that:

- PTAL, as custodian of the FMIF, and LMIM as trustee of the MPF, both made loans to a borrower by the name of Australian International Investment Services Pty Ltd (AIIS);
- PTAL as custodian of the FMIF was the first registered mortgagee, and LMIM as trustee of the MPF was the second registered mortgagee;
- LMIM as trustee of the MPF approved various increases to the amount of the facility, from time to time, in breach of duty; and
- LMIM as trustee of the MPF made various advances that were used to service interest on the loan made by PTAL as custodian of the FMIF to AIIS, in breach of duty, and LMIM as RE of the FMIF received such payments with knowledge that they were made in breach of duty.

The MPF Trustee claims approximately \$16.82 million equitable compensation against LMIM and relief against the assets of the FMIF for approximately \$3.9 million (although 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.

On 3 November 2016, the MPF Trustee filed an application for leave to proceed against LMIM. Leave to proceed with the claim was granted by the Court on certain conditions and the claim was served on LMIM on 28 November 2016.

There have been no further steps taken in the proceedings since my previous update to investors. Negotiations to settle these proceedings in conjunction with the proceedings above and those detailed at section 1.1.3 below are continuing.

1.1.2 Position of the Secured Creditor

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

I continue to liaise with the DB Receivers about their ongoing role and the possibility of their retirement. In the event the proceedings mentioned at Sections 1.1.1.1; 1.1.1.2 and 1.1.3 are settled and a release is provided by the MPF, McGrathNicol will retire as Receivers and Managers.

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

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

- I caused to be filed a statement of claim in the Supreme Court of Queensland, against a number of parties including the MPF, in respect of loss suffered by the FMIF as a result of an amount paid to MPF in 2011 in the Bellpac litigation matter. The claim is for \$15.5M plus interest;
- Discovery in the proceedings has been completed;
- A mediation took place on 12 July 2016. The proceedings were not settled at the mediation, however the parties continue to discuss a potential settlement of the litigation which includes discussions to resolve those matters referred to at sections 1.1.1.1 and 1.1.1.2 above.
- On 20 October 2016, I caused to be filed and served an application against the 2nd and 6th director defendants seeking to vary the previous orders made by the Court allowing them to claim privilege and accordingly not to plead a detailed defence to matters alleged against them. The 6th defendant consented to the orders sought in my application. The 2nd defendant opposed the application. The application was heard on 24 October 2016.
- At the hearing of the application on 24 October 2016 orders were made including an order that the dispensation granted to the 6th defendant on 30 April 2015 (in respect of a claim for privilege), as varied by the order of 30 June 2015, be revoked, the 6th defendant file and serve an amended defence on or before 5 December 2016, an amended reply be filed by me on or before 19 December 2016 and the 6th defendant make disclosure on or before 16 January 2017. The decision on the application in so far as it relates to the 2nd defendant was reserved by the Court.

I summarise developments since my update to investors dated 23 December 2016 as follows:

- Following extensions granted to the 6th defendant to file a defence, a defence was filed and served on me on 28 February 2017;
- The Court's decision on the 2nd defendant's privilege position was handed down on 13 March 2017 requiring the 2nd defendant to file and serve a defence within 28 days that complies with the

pleading requirements under the rules of court for a civil proceeding subject to any claim for privilege the second defendant wishes to make. If a claim for privilege is maintained to any parts of the defence, I will have 7 days to file notice of a challenge to that claim in which case the 2nd defendant must then file an affidavit setting out the ground, basis and circumstances in support of any challenged claim of privilege within 14 days of receiving notice of the challenge

- A request for Further and Better Particulars (Request) was served on the 6th defendant by me on 15 March 2017. I have also now agreed orders with the 6th defendant whereby the 6th defendant now has 14 days to respond to the Request and I will then have 14 days to file an amended reply. The 6th defendant then has 28 days after my amended reply is served, to make disclosure.

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

1.2 Realisation of Assets

There were no real property assets realised during the period.

A summary of the remaining real property assets is provided below:

- Two units in a strata titled unit resort situated in North Queensland are to be sold. Documents have been prepared to correct the title references for the units and the documents are awaiting signature by the owners affected by the required changes to the titles. Once received from the owners they will be lodged at the land titles office. The units will be marketed for sale once the correct titles have been reissued and this is expected to occur before the end of the year.
- 61 hectares of englobo land with various approvals for up to 257 residential lots plus retail space and a childcare centre remain to be sold within a residential land subdivision in Central Queensland. Various applications have been prepared for easements relating to the properties and will be submitted to council for approval shortly. Further updated legal notices are also required to be issued. Following the resolution of these matters, a fresh marketing campaign is expected to commence before the end of the year, but will be subject to the timely receipt of the council's approval.

1.3 Legal Actions/Potential Recoveries

1.3.1 Claim against the former auditors

I refer to my previous updates to investors and 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 over a period of 9 days in June 2015 and a further 9 days in October 2015;
- Following the PEs, a further amended statement of claim was filed by me in the Supreme Court of Queensland and served on the former auditors of the Fund on 14 April 2016.
- The former auditors' solicitors lodged and served on me a strike-out application and supporting affidavit on 27 April 2016 seeking to strike-out certain parts of the statement of claim.
- On 30 May 2016, I filed an application to place the proceedings on the Court's commercial list. This application was also adjourned to a date to be fixed.

- On 2 August 2016, I filed a second further amended statement of claim.
- On 25 August 2016, orders were made setting out a timetable for documents to be filed by the parties and the hearing of the abovementioned applications were adjourned to 15 December 2016.
- At the hearing of the strike out application and the commercial list application on 15 December 2016, the Court granted my application and placed the proceedings on the commercial list and reserved its decision on the auditor's strike out application.

Since my update to investors dated 23 December 2016 no further steps have been taken in the proceedings and the decision of the Court on the strike out application has not yet been handed down.

As advised in previous reports to investors, considerable work has been undertaken in quantifying the loss suffered by the Fund as a result of the auditor's alleged failure to identify and report on the material deficiencies in the Fund's financial accounts and LMIM's compliance with the Compliance Plan. The calculation of the loss is substantially complete and as previously advised, will be in excess of \$100M.

1.3.2 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 1.1.3 above, there are two further matters relating to Bellpac, as detailed below.

a. Wollongong Coal Ltd (WCL) - Convertible Bonds

I refer to my previous updates to investors and I summarise the background 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 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.

Developments since my last update to investors are as follows:

- The conditions precedent to the settlement with WCL included 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;
- The Bellpac Liquidator has confirmed he is reviewing the matter and, for the period to 31 March 2017, he will not take any step adverse to either the MPF or FMIF without first giving the parties 7 days' notice.

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

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

- The proceedings against the Bellpac Receivers and LMIM had been discontinued in 2015. The remaining proceedings by the third mortgagee against PTAL alleging a sale of the former Bellpac property at Bellambi NSW (sold to Gujarat NRE Minerals Limited in 2011) at undervalue was discontinued in mid-2016. All defendants were awarded costs against the plaintiffs when the proceedings were discontinued.
- On 6 November 2016, I caused to be filed winding up applications against the plaintiffs based on the unpaid costs awarded in favour of LMIM as RE of the FMIF; and
- On 7 November 2016 David Clout and Patricia Talty of Clout and Associates were appointed Liquidators over the plaintiff companies, Austcorp No. 20 Pty Ltd and Compromise Creditors Management Pty Ltd (the Austcorp companies)

I am awaiting an update from the Liquidators in relation to the status of the winding up and the prospects for a return to creditors. I understand that the Liquidators have taken steps to require the directors of the Austcorp companies to provide the liquidators with the company's' books and records and other documents. Certain records have recently been received by the Liquidators from the directors.

I continue to liaise with PTAL to ensure that the bank guarantee for the security for costs of \$150,000 provided by the Austcorp companies for the benefit of PTAL will now be recovered for the benefit of FMIF, given FMIF has reimbursed PTAL (which was sued in its capacity as custodian of the FMIF) for its defence costs.

1.3.3 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 (the feeder funds) when the Fund had suspended redemptions and distributions to other classes of members.
- Investigations are ongoing in relation to these issues and, in particular, the apparent increase in the Class B members' interest in the Fund as a consequence of the distribution transactions

I summarise developments since my update to investors dated 23 December 2016 as follows:

- During the period, I caused to be filed a statement of claim against certain parties to preserve claims in relation to certain transactions and avoid possible expiration of claims as a consequence of the statute of limitations (to the extent these limitations apply to the claim). This claim has

not yet been formally served on the parties. Further investigations are being finalised and it is expected that shortly the claim will be amended to include additional transactions at which time the claim will be served on the parties.

- Once the claim has been amended and served on the parties, I propose to seek directions from the Court.

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

1.3.4 External Valuations

During the period I progressed my investigations into whether the valuations relied on in advancing loans was too high and if there was negligence by the valuer which contributed to the losses. I have not at this stage identified any claims that would be commercial to pursue.

1.3.5 Claim by ASIC against the Directors

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

- ASIC commenced civil penalty proceedings in the Federal Court of Australia in November 2014 against Peter Drake, Francene Mulder, Eghard Van Der Hoven, Simon Tickner and Lisa Darcy. ASIC alleged Mr Drake used his position to gain an advantage for himself and that the other former directors breached their duties for failing to act with the proper degree of care and diligence regarding transactions involving the MPF.
- ASIC discontinued its proceedings as against Mr Tickner and Ms Darcy, which related to their conduct as directors in respect of a loan to Maddison Estate Pty Ltd.
- ASIC's proceedings as it remains as against the other directors concerned a transaction that occurred in 2012 involving the loan to Maddison Estate Pty Ltd.

On 23 December 2016 the decision of the Court was handed down dismissing the proceedings against the other directors. Further details can be found on the ASIC website www.asic.gov.au under media releases. ASIC did not appeal the decision and are now out of time to do so.

1.3.6 Various claim against Guarantors

During the period I progressed a review of the loan book to ascertain if there are any further claims against guarantors capable of commercial recoveries. Two matters are currently the subject of court proceedings with one being the subject of a proposed deed of settlement.

1.3.7 Western Union

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

Western Union sought to set off funds held in the FMIF account against alleged liabilities of LMIM in its capacity as RE of other funds, however a confidential commercial settlement has been negotiated. The amount of the claim is approximately \$93,000 (subject to exchange rate fluctuations). While the terms of settlement have been agreed, Western Union requested that the terms be further recorded in a settlement deed. The terms of the draft settlement deed are still being finalised. I am hopeful that this matter can be finalised shortly.

1.3.8 Liquidators of LMIM (FTI Consulting)

a. Application for remuneration approval

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

- FTI filed a Further Amended Originating Application on 16 December 2015 for the determination of their remuneration claimed as 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.
- The application was heard on 22 February 2016 and 14 March 2016.
- Judgement is reserved and is yet to be handed down by the Court

Please note that all material filed with the Court in relation to FTI's remuneration claim is available on the websites www.lmfimf.com and www.lminvestmentadministration.com. A copy of the judgement and court order will be uploaded to the websites when handed down.

FTI have not submitted further details of their additional remuneration and costs claimed up to 31 December 2016 and have advised that they are awaiting the outcome of the judgement noted above.

b. Indemnity claim against the Fund

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. This claim has been rejected in full. I consider that the judgement to be handed down in relation to FTI's remuneration application deals with some similar issues.
- 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 have made an application to Court challenging my decision to reject their indemnity claim noted above (Indemnity Application).

The hearing of the Indemnity Application has now been set for 8 May 2017 and 9 May 2017. I have applied for judicial advice as to whether I am justified in raising the clear accounts rule in opposition to the Indemnity Application.

c. Claim filed against LMIM (not served)

During the period, I caused LMIM as RE of the FMIF to commence a proceeding against LMIM (Supreme Court of Queensland Proceedings 11560) in relation to certain transactions to avoid possible expiry of the statutory limitation periods for making the claims. This claim has not yet been formally served on LMIM.

In this proceeding, LMIM as RE of the FMIF 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; and
- 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.

The amount of these claims has not been finalised, but will likely exceed the amount claimed against assets of the FMIF in the Assigned Loans Claim referred to above.

2. Financial Position of the Fund

The management accounts for the year ending 31 December 2016 are available on the website www.lmfimf.com on the page titled 'Financial Statements & Other Key Documents'.

A summary of the financial position of the Fund as at 31 December 2016 is provided below.

	31 December 2016
ASSETS	\$
Cash and cash equivalents	71,788,873
Receivables	200,408
Loans & Receivables	5,448,657
TOTAL ASSETS	77,437,938
 LIABILITIES	
Payables	5,817,625
Distributions payable	1,372,036
Total liabilities excluding net assets attributable to unitholders	7,189,661
 NET ASSETS	70,248,277

Fund Assets

The total assets of the Fund as at 31 December 2016 were \$77,437,938.

The balance includes cash at bank of \$71,788,873, interest receivable on term deposits of \$200,408 and net default loans of \$5,448,657. The net default loans balance includes the two remaining real property assets noted at section 1.2 above and cash held in controllership bank accounts.



Fund Liabilities

The total liabilities of the Fund as at 31 December 2016 were \$7,189,661.

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 2016.

Net Assets Attributable to Unit Holders

Net assets attributable to unit holders as at 31 December 2016 were \$70,248,277.

The net assets of the Fund and number of units on issue as at 31 December 2016 and 30 June 2016 is detailed in the table below.

	31 December 2016	30 June 2016
Estimated net amount of assets available to investors as at period end (\$)	70,248,277	71,898,388
Total investor units (# of units)	478,100,386	478,100,386
Estimated net asset amount per unit available to investors as at period end (cents in the dollar)	14.7	15

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 to 31 December 2016 is summarised in the table below.

	\$
Receipts	
Interest	899,639
GST received	226,596
Other income	35,331
TOTAL RECEIPTS	1,161,566
Payments	
Bank charges	32
Consultants' fees	26,936
Custodian fees	33,000
Custodian legal fees (Re Austcorp defence)	444,725
DB Receivers' fees	148,358
IT expenses	60,829
Legal fees	1,222,287
Loan draws	22,652
Printing and stationary	17,408
Receiver's fees and disbursements	2,614,280
Record management and storage	5,398
TOTAL PAYMENTS	4,595,905
NET RECEIPTS (PAYMENTS)	(3,434,339)

4. Investor Information

4.1 Estimated Return to Investors

Based on the professional valuations for the properties charged to the Fund, I provide an estimated return to Investors of between 13.6 cents and 14.9 cents per unit as at 28 February 2017, calculated as follows:

	Low \$	High \$
Cash at bank	73,237,299	73,237,299
Other assets	211,720	1,426,720
Estimated selling prices of properties to be sold	2,850,000	3,050,000
Estimated Assets Position	76,299,019	77,714,019
Selling costs (estimated 2.5% of sale price)	71,250	76,250
Other unsecured creditors	6,208,901	1,479,836
FTI Fees & legal expenses advised (subject to approval)- refer to Section 1.3.9 for further details - maximum amount shown	4,211,638	4,211,638
Receivers and Managers' fees (DB Receivers)	111,340	111,340
Receivers and Managers' accrued expenses (DB Receivers)	8,666	8,666
Receiver's fees & outlays (BDO) (including controllerships)	505,390	505,390
Receiver's legal fees (BDO)	151,665	151,665
Total Liabilities	11,268,850	6,544,785
Estimated net amount available to investors as at 28 February 2017	65,030,169	71,169,234
Total investor units (as at 31 December 2016)	478,100,386	478,100,386
Estimated return in the dollar	13.6 cents	14.9 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 2016

The estimated unit price as at 31 December is 14.7 cents, which is based on the mid-point of the high and low estimated selling prices of the secured assets as at 31 December 2016.

	\$
Total Value of Fund Assets as at 31 December 2016 (net of land tax and rates)	77,437,938
Less Creditors and Other Payables	7,189,661
Total Net Value of Fund Assets	70,248,277
Total Number of Units	478,100,386
Unit Price	14.7 cents

I *attach* a copy of a letter confirming the unit price as at 31 December 2016, 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.

Please note that the distribution to Investors will take place after paying secured creditors, costs, land tax, rates, Receivers fees 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 2017.



My next report to investors will be issued by 30 June 2017.

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 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 six applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 31 October 2016.

The application for the approval of my remuneration for the period 1 May 2016 to 31 October 2016 was heard on 2 December 2016. The Court ordered that my remuneration for this period be fixed in the amount of \$1,119,991.40 (inclusive of GST) in relation to my role as the person responsible for ensuring the FMIF is wound up in accordance with its constitution and \$13,385.35 in relation to the controllerships for the retirement village assets.

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 \$498,479.50 plus outlays of \$3,673.25 plus GST from 1 November 2016 to 28 February 2017 plus work undertaken in respect of the controllerships for the retirement village assets of \$3,237.50 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)	498,479.50	3,673.25
OVST Pty Ltd (In Liquidation) (Controllers Appointed)	794.00	-
Pinevale Villas Morayfield Pty Ltd (In Liquidation) (Controllers Appointed)	478.00	-
Bridgewater Lake Estate Ltd (In Liquidation) (Controllers Appointed)	804.50	-
Redland Bay Leisure Life Ltd (In Liquidation) (Controllers Appointed)	466.00	-
Redland Bay Leisure Life Development Ltd (In Liquidation) (Controllers Appointed)	334.50	-
Cameo Estates Lifestyle Villages (Launceston) Pty Ltd (Receivers & Managers Appointed) (Controllers Appointed)	360.50	-
Total	501,717.00	3,673.25

The fees for the four months from November 2016 to February 2017 average approximately \$125,000 per month compared to the four months from May to October 2016 of approximately \$183,000 per month.

I anticipate that my next application to Court for the approval of my remuneration will be made in May/June 2017 covering the period 1 November 2016 to 30 April 2017. A copy of my application in this respect will be posted to the website www.lmfmif.com and investors will be notified when this application has been lodged.

6. Actions taken during the period

I provide below a summary of actions taken during the period from 1 July to 31 December 2016:

- Work undertaken in relation to the litigation matters detailed at Section 1.1 and 1.3 of this report, which include, among other things:
 - Progressing the claim against the former auditors regarding the financial statements and compliance plan audits following public examinations held, responding to EY's strike out application of certain parts of our claim, amending the claim and substantial work quantifying the loss suffered by the Fund;

- Preparation of two statements of claim which have been filed against certain parties to preserve claims in relation to certain transactions and avoid possible statutory expiration possibly expiring as a consequence of the statute of limitations;
 - Monitoring and providing assistance to the Liquidator of Bellpac regarding the \$8M bond claim and progressing this matter;
 - Progressing the claim against the MPF and others;
 - Responding to the amended claims filed by the MPF Trustee against the assets of the Fund and investigating counter claims against the MPF
 - Pursuing the costs orders against the Austcorp companies and their subsequent winding up
 - Review of potential claims against former valuers of property securities for negligence and breach of contract;
 - Progressing claims against guarantors.
- Liaising with various parties in relation to the potential for the DB Receiver's retirement;
 - Finalising settlement of Western Union's set off claim;
 - Dealing with FTI in relation to their claims for indemnity against the assets of the Fund for expenses and costs incurred in their capacity as liquidators of the responsible entity;
 - Maintaining the management accounts of the Fund and prepare management accounts for the half year ending 31 December 2016 and for the year ending 30 June 2016;
 - 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 of affidavit and supporting material for an application to Court for approval of the receiver's remuneration for the period 1 May to 31 October 2016;
 - Finalising outstanding trading matters from the sale of five retirement villages, including tax compliance issues;
 - Investigations into the migration of the Composer investor management database to the AX investor management database and liaising with an IT consultant in relation to proposed correction of membership records in relation to investors that acquired units in foreign currencies;
 - Attending to compliance with 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 as at 30 June 2016 and 31 December 2016;
 - Preparation of update reports to investors in July, September and December 2016.

7. 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;
- Sale and settlement of the remaining two real properties outlined at section 1.2 of this report;
- Assess the outcome of the EY strike out application on certain parts of the claim against the former auditors and progress the claim against EY outlined at section 1.3.1 of this report;

- Take steps to determine or resolve the claim regarding the Bellpac bonds and realise this asset as outlined at section 1.3.2 of this report;
- Resist the MPF claim against the proceeds of the Bonds;
- Liaise with the Liquidator of the Austcorp companies to determine the potential for a return in the windings up for the benefit of the Fund as set out in section 1.3.2b of this report;
- Resolve the position in relation to the distributions and redemptions paid to the Feeder Funds;
- Finalise investigations in relation to potential claims against external valuers;
- Finalise all claims against guarantors;
- Obtain a release of funds held by Western Union;
- Resolve or have determined FTI's indemnity claim against the Fund;
- Maintain the accounts of the Fund and prepare management accounts for the year ending 30 June 2017 and half year ending 31 December 2017;
- 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;
- Obtain approval from the Court to process interim distributions to investors;
- Process interim distributions to investors;
- Report to investors on a quarterly basis;
- 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.

8. Actions required to complete the winding up

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

- Realise the remaining two real properties;
- Finalise all litigation currently on foot and contemplated;
- Resolve FTI's indemnity claim 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 months, however, this may vary subject to the progression of the outstanding legal matters detailed in this report.

9. 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 blue ink, consisting of several overlapping, fluid loops and strokes.

David Whyte
Receiver



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016 to 28 February 2017
 LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS APPOINTED) (RECEIVER APPOINTED)

Employee	Position	Rate	Totals		Task Area									
			hrs	\$	Assets		Creditors		Trade On		Investigations		Administration	
					hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	580	114.7	66,526.00	54.9	31,842.00	17.3	10,034.00	26.8	15,544.00	0.9	522.00	14.8	8,584.00
Clark Jarrold	Partner	560	61.3	34,328.00	61.3	34,328.00								
Eric Leeuwendal	Executive Director	495	393.0	194,535.00	264.2	130,779.00	39.0	19,305.00	12.3	6,088.50	51.1	25,294.50	26.4	13,068.00
Craig Jenkins	Partner	490	8.1	3,969.00					8.1	3,969.00				
John Somerville	Senior Manager	455	126.4	57,512.00	6.9	3,139.50	56.3	25,616.50	41.5	18,882.50	9.7	4,413.50	12.0	5,460.00
Julie Pagcu	Senior Manager	385	3.9	1,501.50					3.9	1,501.50				
Julie Pagcu	Senior Manager	375	7.8	2,925.00					7.8	2,925.00				
Aubrey Meek	Senior Accountant II	290	116.4	33,756.00			104.4	30,276.00	5.2	1,508.00			6.8	1,972.00
Dermot O'Brien	Senior Accountant II	290	93.0	26,970.00			3.1	899.00	89.3	25,897.00	0.6	174.00		
Dermot O'Brien	Senior Accountant II	235	106.1	24,933.50	2.8	658.00	35.4	8,319.00	33.0	7,755.00	32.5	7,637.50	2.4	564.00
Sarah Cunningham	Team Assistant	200	14.5	2,900.00									14.5	2,900.00
Ryan Whyte	Undergraduate	165	219.9	36,283.50			112.2	18,513.00	1.8	297.00	92.9	15,328.50	13.0	2,145.00
Andrew Lane	Undergraduate	165	41.0	6,765.00			40.1	6,616.50					0.9	148.50
Antoinette Fielding	Undergraduate	165	16.0	2,640.00	0.5	82.50	15.5	2,557.50						
Nicole Jackson	Team Assistant	160	1.2	192.00									1.2	192.00
Brooke Streidl	Team Assistant	130	3.5	455.00	3.5	455.00								
Emma Sheehy	Junior Practice Assistan	115	4.3	494.50	4.3	494.50								
Maira Hattigh	Team Assistant	85	21.1	1,793.50									21.1	1,793.50
TOTALS			1,352.2	498,479.50	398.4	201,778.50	423.3	122,136.50	229.7	84,367.50	187.7	53,370.00	113.1	36,827.00
GST				49,847.95										
TOTAL INC GST				548,327.45										
AVERAGE HOURLY RATE				369		506		289		367		284		326

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016 to 28 February 2017
OVST PTY LTD

Employee	Position	Rate	Totals		Task Area								
			hrs	\$	Creditors		Employees		Administration				
					hrs	\$	hrs	\$	hrs	\$			
David Whyte	Partner	580	0.1	58.00			0.1	58.00					
John Somerville	Senior Manager	455	1.0	455.00						1.0	455.00		
Dermot O'Brien	Senior Accountant II	235	0.2	47.00	0.2	47.00							
Sarah Cunningham	Team Assistant	200	0.3	60.00						0.3	60.00		
Ryan Whyte	Undergraduate	165	0.7	115.50						0.7	115.50		
Andrew Lane	Undergraduate	165	0.2	33.00						0.2	33.00		
Moira Hattingh	Team Assistant	85	0.3	25.50						0.3	25.50		
TOTALS			2.8	794.00	0.2	47.00	0.1	58.00		2.5	689.00		
			GST	79.40									
			TOTAL INC GST	873.40									
			AVERAGE HOURLY RATE	284			235			580			276

Note: All amounts exclude GST unless otherwise noted



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016
to 28 February 2017**

CAMEO ESTATES LIFESTYLE VILLAGES (LAUNCESTON) PTY LTD

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Creditors		Administration	
					hrs	\$	hrs	\$
John Somerville	Senior Manager	455	0.3	136.50			0.3	136.50
Dermot O'Brien	Senior Accountant II	235	0.2	47.00	0.2	47.00		
Sarah Cunningham	Team Assistant	200	0.1	20.00			0.1	20.00
Ryan Whyte	Undergraduate	165	0.7	115.50			0.7	115.50
Andrew Lane	Undergraduate	165	0.2	33.00			0.2	33.00
Moira Hattingh	Team Assistant	85	0.1	8.50			0.1	8.50
TOTALS			1.6	360.50	0.2	47.00	1.4	313.50
				GST	36.05			
				TOTAL INC GST	396.55			
				AVERAGE HOURLY RATE	225	235	224	

Note: All amounts exclude GST unless otherwise noted



**REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016
to 28 February 2017**

BRIDGEWATER LAKE ESTATE PTY LTD

Employee	Position	Rate	Totals		Task Area			
			hrs	\$	Assets		Administration	
					hrs	\$	hrs	\$
John Somerville	Senior Manager	455	0.7	318.50	0.2	91.00	0.5	227.50
Dermot O'Brien	Senior Accountant II	235	0.2	47.00			0.2	47.00
Sarah Cunningham	Team Assistant	200	0.5	100.00			0.5	100.00
Ryan Whyte	Undergraduate	165	0.8	132.00			0.8	132.00
Andrew Lane	Undergraduate	165	1.1	181.50			1.1	181.50
Moira Hattingh	Team Assistant	85	0.3	25.50			0.3	25.50
TOTALS			3.6	804.50	0.2	91.00	3.4	713.50
				GST	80.45			
				TOTAL INC GST	884.95			
				AVERAGE HOURLY RATE	223	455	210	

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016 to 28 February 2017

REDLAND BAY LEISURE LIFE DEVELOPMENT PTY LTD

Employee	Position	Rate	Totals		Task Area	
					Administration	
			hrs	\$	hrs	\$
John Somerville	Senior Manager	455	0.1	45.50	0.1	45.50
Dermot O'Brien	Senior Accountant II	235	0.2	47.00	0.2	47.00
Sarah Cunningham	Team Assistant	200	0.3	60.00	0.3	60.00
Ryan Whyte	Undergraduate	165	0.8	132.00	0.8	132.00
Andrew Lane	Undergraduate	165	0.2	33.00	0.2	33.00
Moira Hattingh	Team Assistant	85	0.2	17.00	0.2	17.00
TOTALS			1.8	334.50	1.8	334.50
				GST	33.45	
				TOTAL INC GST	367.95	
				AVERAGE HOURLY RATE	186	186

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016 to 28 February 2017

REDLAND BAY LEISURE LIFE PTY LTD

Employee	Position	Rate	Totals		Task Area	
			hrs	\$	Administration	
					hrs	\$
John Somerville	Senior Manager	455	0.3	136.50	0.3	136.50
Dermot O'Brien	Senior Accountant II	235	0.2	47.00	0.2	47.00
Sarah Cunningham	Team Assistant	200	0.5	100.00	0.5	100.00
Ryan Whyte	Undergraduate	165	0.7	115.50	0.7	115.50
Andrew Lane	Undergraduate	165	0.2	33.00	0.2	33.00
Moira Hattingh	Team Assistant	85	0.4	34.00	0.4	34.00
TOTALS			2.3	466.00	2.3	466.00
				GST	46.60	
				TOTAL INC GST	512.60	
				AVERAGE HOURLY RATE	203	203

Note: All amounts exclude GST unless otherwise noted



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 November 2016 to 28 February 2017
PINEVALE VILLAS MORAYFIELD PTY LTD

Employee	Position	Rate	Totals		Task Area					
			hrs	\$	Creditors		Trade On		Administration	
					hrs	\$	hrs	\$	hrs	\$
David Whyte	Partner	580	0.1	58.00			0.1	58.00		
John Somerville	Senior Manager	455	0.2	91.00					0.2	91.00
Dermot O'Brien	Senior Accountant II	235	0.2	47.00	0.2	47.00				
Sarah Cunningham	Team Assistant	200	0.5	100.00					0.5	100.00
Ryan Whyte	Undergraduate	165	0.8	132.00					0.8	132.00
Andrew Lane	Undergraduate	165	0.2	33.00					0.2	33.00
TOTALS			2.2	478.00	0.2	47.00	0.1	58.00	1.9	373.00
GST					47.80					
TOTAL INC GST					525.80					
AVERAGE HOURLY RATE					217	235	580	196		

Note: All amounts exclude GST unless otherwise noted



**Disbursements for the period 1 November 2016 to 28 February 2017
LM FIRST MORTGAGE INCOME FUND (RECEIVERS AND MANAGERS
APPOINTED) (RECEIVER APPOINTED)**

Expense Type	Amount (\$ ex GST)
Postage	3,203.22
Write Offs (BRI Only)	146.15
Accommodation	323.88
TOTAL	3,673.25
GST	367.33
TOTAL INC GST	4,040.58