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Australia

30 September 2021

TO INVESTORS

Dear Member

**LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288
(RECEIVER APPOINTED) ("THE FUND")**

I attach the unaudited accounts for the Fund for the year ending 30 June 2021.

The accounts have been prepared in accordance with the Scheme Constitution, the recognition and measurement requirements of the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The accounts have been reviewed by the BDO audit team. However, their work does not constitute a full audit and therefore, the accounts are provided on an unaudited basis.

Should members require further information, please contact BDO on the details provided below.

BDO
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Email: enquiries@lmfmif.com

Yours sincerely

David Whyte
Court Appointed Receiver

Disclaimer:

The 30 June 2021 financial statements were compiled by BDO Business Restructuring Pty Ltd however we did not audit those financial statements and, accordingly, express no opinion or other form of assurance on them.

LM FIRST MORTGAGE INCOME FUND
(RECEIVER APPOINTED)
ABN: 66 482 247 488

Report for the year ended 30 June 2021

Disclaimer

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LM FIRST MORTGAGE INCOME FUND
(RECEIVER APPOINTED)
ABN: 66 482 247 488

Financial Statements for the year ended 30 June 2021

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The Responsible Entity of LM First Mortgage Income Fund (Receiver Appointed) is LM Investment Management Limited (ABN 68 077 208 461) (in Liquidation).

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Note	30 June 2021 \$	30 June 2020 \$
<i>Income</i>			
Interest revenue - cash assets	12	293,521	935,101
LMA Operational Costs Reimbursement		176,363	-
Other Income	3 (a)	14,110	473,670
		483,994	1,408,771
<i>Expenses</i>			
Custodian fees & legal fees	9	22,164	17,000
Net Impairment losses (gains) on mortgage loans	6 (a)	(2,750,000)	(987,277)
Adjustment on foreign exchange accounts		-	(104)
Other expenses	4	10,381,773	7,718,307
<i>Total expenses excluding distributions to unitholders</i>		7,653,937	6,747,926
<i>Net profit (loss) before distributions to unitholders</i>		(7,169,943)	(5,339,155)
Net non-capital distributions paid/payable to unitholders		-	-
<i>Net profit (loss) after distributions to unitholders</i>		(7,169,943)	(5,339,155)
Other comprehensive income			-
<i>Net profit (loss) after distributions to unitholders</i>		(7,169,943)	(5,339,155)
Income tax expense			-
<i>Changes in net assets attributable to unitholders after income tax expense</i>		(7,169,943)	(5,339,155)

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	30 June 2021	30 June 2020
ASSETS		\$	\$
Cash and cash equivalents	11	27,506,519	34,324,670
Receivables	10	178,407	223,435
Loans & Receivables	6	-	-
TOTAL ASSETS		27,684,926	34,548,105
 LIABILITIES			
Payables and accrued expenses	7	5,031,515	4,599,178
Distributions payable	3 (b)	2,916,039	3,041,612
Total liabilities excluding net assets attributable to unitholders		7,947,554	7,640,790
 NET ASSETS		19,737,372	26,907,315
 Represented by:			
Net assets attributable to unitholders	5	19,737,372	26,907,315
(calculated in accordance with IFRS)			

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the year ended 30 June 2021

		30 June 2021	30 June 2020
	Note	\$	\$
TOTAL			
Opening balance		26,907,315	60,103,100
Units issued during the year	5		
Units redeemed during the year	5		
Units issued on reinvestment of distributions			
Changes in net assets attributable to unitholders		(7,169,943)	(33,195,785)
Closing Balance		19,737,372	26,907,315

The Statement of Changes in Net Assets Attributable to Unitholders is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Note	30 June 2021	30 June 2020
		\$	\$
Cash flows from operating activities			
Interest and distributions received		293,521	935,101
Other operating expenses		(9,781,127)	(5,278,265)
GST and withholding tax (paid)/received		45,028	(132,666)
Net cash inflow/(outflow) from operating activities	11 (b)	(9,442,578)	(4,475,830)
Cash flows from investing activities			
Payments for secured mortgage loans	6 (b)	-	-
Receipts from settled mortgage loans	6 (b)	2,750,000	1,047,277
Net cash inflow/(outflow) from investing activities		2,750,000	1,047,277
Cash flows from financing activities			
Distributions paid	2 (m)	(125,573)	(26,187,055)
		(125,573)	(26,187,055)
Net increase/(decrease) in cash and cash equivalents		(6,818,151)	(2,131,613)
Cash and cash equivalents at beginning of year		34,324,670	63,940,278
Cash and cash equivalents at end of year	11 (a)	27,506,519	34,324,670

The Statement of Cashflows is to be read in conjunction with the notes to the financial statements.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

1. CORPORATE INFORMATION

During the period March 2013 to August 2013, a series of insolvency events occurred in respect of both the Fund and the Responsible Entity for the Fund, these are detailed in the table below:

Date	Appointment
19 March 2013	John Park and Ginette Muller of FTI Consulting appointed as Administrators of LM Investment Management Ltd ("LMIM") being the Responsible Entity for the Fund.
11 July 2013	Joseph Hayes and Anthony Connelly of McGrathNicol appointed as Receivers and Managers of LMIM as the Responsible Entity of LM First Mortgage Income Fund (Receivers and Managers Appointed) (Receiver Appointed) ('LMFMIF', 'FMIF', 'Scheme' or the 'Fund') by Deutsche Bank. On 10 December 2018, Mr Hayes and Mr Connelly retired.
1 August 2013	John Park and Ginette Muller of FTI Consulting appointed as liquidators of LMIM. On 17 May 2017, Ms Muller ceased to be Liquidator.
8 August 2013	David Whyte of BDO appointed by the Court as Receiver of the assets of the Fund and as the person responsible for ensuring the Fund is wound up in accordance with its Constitution.

The Scheme is an Australian registered Scheme, constituted on 13 April 1999.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

(a) Basis of accounting

This financial report has been prepared in accordance with the Scheme Constitution, the recognition and measurement requirements of the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The Statement of financial position is presented in decreasing order of liquidity and does not distinguish between current and non-current items. The amount expected to be recovered or settled within twelve months in relation to the balances cannot be reliably determined.

The financial report is presented in Australian Dollars (\$).

Statement of compliance

The financial statements have been prepared in accordance with the recognition and measurement requirements of the Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board except for AASB 9, *Financial Instruments*. The Scheme has not adopted AASB 9 for this financial report given its wind up status, there was no benefit from doing so.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of accounting (Continued)

Status of investment in fund

During the 2009 year, the Responsible Entity closed the Scheme to new investors and suspended withdrawals subject to certain exceptions. Redemptions were suspended at this time, per the Constitution, as the Responsible Entity considered the suspension of the withdrawals to be in the best interest of the members of the Scheme.

The Scheme is now in the process of being formally wound up with redemptions and hardship provisions remaining suspended.

Liquidation Basis

Previous financial statements have been prepared on a going concern basis.

The financial statements for the periods ended 30 June 2013 onwards have not been prepared on a going concern basis due to the appointment of Administrators to the Responsible Entity for the Fund on 19 March 2013 and subsequently Liquidators on 1 August 2013 and the appointment of Receivers and Managers and Court Appointed Receiver and person responsible for ensuring it is wound up in accordance with its Constitution as detailed in Note 1. Accordingly, the financial statements for those periods have been prepared on a liquidation basis.

(b) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the reporting period. The impact of these standards and interpretations are not expected to have a material impact on the Scheme have not been included.

(c) Significant accounting judgements, estimates and assumptions

In the process of applying accounting policies, judgements and estimations have been made which have had an impact on the amounts recognised in the accounts. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Allowance for impairment loss on loans and receivables

The Scheme determines whether loans are impaired on an ongoing basis. Individually assessed provisions are raised where there is objective evidence of impairment, where the Scheme does not expect to receive all of the cash flows contractually due. Individually assessed provisions are made against individual facilities.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. For the purposes of the Statement of cash flows, cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Distribution income

Distribution income is recognised when the Scheme's right to receive income is established.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Interest income

Interest income is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest ceases to be recognised when a loan is in default and the principal is impaired.

(g) Default management fees

Income from default management fees is recognised in line with the executed agreement with the borrower when an event of default occurs.

(h) Changes in the fair value of investments

Gains or losses on investments held for trading are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

(i) Fees, commissions and other expenses

Except where included in the effective interest calculation (for financial instruments carried at amortised cost), fees and commissions are recognised on an accrual basis. Audit and compliance fees are included with 'other expenses' and are recorded on an accrual basis.

(j) Financial instruments

Financial instruments in the scope of *AASB 139 Financial Instruments* are classified as either financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale investments or other financial liabilities as appropriate.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Scheme determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Scheme commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value including transaction costs directly attributable to the financial asset. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for credit losses when there is objective evidence that the Scheme will not be able to collect the loans and receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments

has been recognised in relation to the loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as an expense in the statement of comprehensive income.

A provision is made of loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The components of impaired assets are as follows:

“Loans in arrears” are loans and advances for which there is reasonable doubt that the Scheme will be able to collect all amounts of principal and interest in accordance with the terms of the agreement.

“Assets acquired through the enforcement of security” are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

When it is determined that interest is not recoverable on certain impaired loans, the interest is suspended and not brought into income. Should the analysis of the collectability subsequently change the interest will be brought into income at the time it is determined to be collectable.

(k) Payables

Payables are carried at amortised costs and represent liabilities for goods and services provided to the Scheme prior to the end of the financial year and half year that are unpaid and arise when the Scheme becomes obliged to make future payments in respect of the purchases of these goods and services.

The distribution amount payable to investors as at the reporting date is a carried forward balance from a period prior to the appointment of the Court Appointed Receiver. This balance is recognised separately on the statement of financial position as unitholders are presently entitled, subject to verification and any directions made by the Court, to the distributable income as at 30 June 2014 under the Scheme’s constitution.

(l) Increase/decrease in net assets attributable to unitholders

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax. Excess and undistributed income is also transferred directly to net assets attributable to unitholders.

(m) Distributions

The remaining return to investors is currently estimated at 5.9 cents per unit and excludes the interim distribution to investors of 6.5 cents made in October 2019. This is before taking into account future costs and any recoveries from legal proceedings on foot.

Mr Whyte applied to the Court for authorisation to make an interim distribution to investors, which was a condition precedent to the settlement of the proceedings against the Feeder Funds of the Fund (**Distribution Application**). Mr Whyte also applied

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Distributions (Continued)

to the Court for judicial advice in relation to a settlement of the proceedings against the Feeder Funds (**Judicial Advice Application**), which was another condition precedent to the settlement. The two applications were heard in Court on 13 March 2019 and on 2 and 3 May 2019. On 22 May 2019, Mr Whyte was given judicial advice from the Court that he was justified in settling the proceedings against the Feeder Funds and in causing the Fund to perform the settlement. On 2 October 2019, Mr Whyte was provided with authority, pursuant to a court order, to make the interim capital distribution. An interim capital distribution to investors of the LM First Mortgage Income Fund was paid to investors in October 2019 in the amount of 6.5 cents per unit.

(n) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties such as audit fees, custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 55%.

Investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in the statement of cash flows on a gross basis.

The GST component of cash flows arising from investing and financing activities recoverable or payable to the ATO is classified as an operating cash flow.

(o) Applications and redemptions

Applications received for units in the Scheme are recorded when units are issued in the Scheme. Redemptions from the Scheme are recorded when the cancellation of units redeemed occurs. Unit redemption prices are determined by reference to the net assets of the Scheme divided by the number of units on issue.

Applications received in foreign currency denominations are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Foreign currency denominated unitholder funds are translated into the Schemes functional currency at balance date, using the spot rate prevailing at that date. Gains and losses arising from foreign exchange translation are recorded in the Statement of Comprehensive Income in the period in which they arise.

(p) Taxation

Under current legislation, the Scheme is not subject to income tax provided the distributable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(r) Foreign currency translations

The Scheme's transactions in foreign currencies previously comprised applications and withdrawals of foreign currency unitholder funds and payment of distributions. Transactions in foreign currencies were initially recorded in the functional

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Foreign currency translations (Continued)

currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date, and exchange rate gains and losses are recognised in the statement of comprehensive income.

(s) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments not traded in an active market is determined using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

(t) Estimated net asset amount per unit available to investors

The estimated amount of net assets available to investors are subject to the uncertainties indicated in this financial report.

The net assets of the fund and number of units on issue at the end of each of the periods is detailed in the table below:

	30 June 2021	30 June 2020
Estimated net amount of assets available to investors as at the period end (\$)	19,737,372	26,907,315
Total investor units (# of units)	492,125,624	492,125,624
Estimated net asset amount per unit available to investors as at the period end (cents in the dollar)*	0.040	0.056

*Estimated return to investors

The estimated net asset amount per unit available to investors as set out above is subject to the resolution of a number of ongoing proceedings, including the amount to be paid under a deed of settlement with the Feeder Funds which is dependent on the final amounts to be distributed to members. Please refer to Note 13 below for further details regarding the litigation matters.

3. INCOME AND DISTRIBUTIONS PAYABLE

(a) Other Income

The other income amount of \$14,110 (FY2020: \$473,670) predominantly relates to adjustments to the Fund's accrued expenses that were reported and expensed in prior periods during the Receivership.

(b) DISTRIBUTIONS PAYABLE

The distributions payable balance is made up of:

- \$1,372,036 (30 June 2020: \$1,372,036) relates to distributions that appear to have been declared prior to the date of the Court Receiver's appointment which were not paid, or have not cleared or were returned unclaimed. These liabilities have not been verified and Court approval or directions may be required before any payment is made.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

3. INCOME AND DISTRIBUTIONS PAYABLE (Continued)

(b) DISTRIBUTIONS PAYABLE (Continued)

- \$1,544,003 (30 June 2020: \$1,669,576) relates to distributions that were returned/unclaimed from the interim capital distribution to investors paid by BDO in October 2019 in accordance with the Court order dated 2 October 2019.

I am 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.

There were no distributions to unitholders for the years ended 30 June 2021, 30 June 2019, 30 June 2018, 30 June 2017, 30 June 2016 and 30 June 2015.

4. OTHER EXPENSES

	30 June 2021	30 June 2020
Other Expenses	\$	\$
Court Appointed Receiver's fees & outlays (BDO) *	2,259,432	1,935,227
Legal Fees	7,665,281	3,208,369
Liquidators' of LMIM Remuneration (FTI)	18,997	393,044
Liquidators' of LMIM Legal Fees (FTI)	260,218	
Provision for Directors Proceedings - Cost Orders	-	2,000,000
Other expenses	177,845	181,667
Total	10,381,773	7,718,307

*Denotes expenses which are subject to approval by the court.

Court Appointed Receiver's fees & outlays (BDO)

	30 June 2021	30 June 2020
The Court Appointed Receiver's fees & outlays are represented by the following amounts:	\$	\$
Court Appointed Receiver's investigations, litigation and other non-operating costs	1,378,254	812,796
Operating Costs of the Fund	881,178	1,122,431
Total	2,259,432	1,935,227

The Court Appointed Receiver's investigations and other non-operating costs include time costs in relation to the claim against the former auditors of the Fund, and other litigation matters.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

5. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Movements in the net assets attributable to unitholders during the year were as follows:

Net assets attributable to unitholders	30 June 2021	30 June 2020
	\$	\$
Opening balance	478,100,385	478,100,385
Adjustment to unitholder funds- refer to Note 5 (i)	14,025,239	-
Adjusted balance	492,125,624	478,100,385
Units issued during the year	-	-
Units redeemed during the year	-	-
Units issued upon reinvestment of distributions	-	-
Net capital distributions declared	-	(27,856,630)
Changes in net assets attributable to unitholders after income tax expense for current period	(7,169,943)	(5,339,155)
Other cumulative movement in changes in net assets	(465,218,309)	(417,997,285)
Net assets attributable to unitholders	19,737,372	26,907,315
Net capital distributions declared	-	(27,856,630)
Net distributions		
Gross capital distribution declared	-	31,988,166
Less amounts withheld	-	(4,131,536)
Net capital distributions declared	-	27,856,630
Distributions		
Net capital distribution declared	-	27,856,630
Less amounts unable to be credited to unitholder's bank account and recognised as Distributions Payable	-	(1,669,575)
Distributions paid in cash	-	26,187,055

Class A

Class A consists of unitholders who are entitled to receive the declared distribution rate. There are a number of subclasses attached to class A. These consist of the following products with varying terms:

- 1) Flexi Account investment option
- 2) Fixed Term investment option
- 3) LM Savings Plan investment option

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

5. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

Class B

Class B consists of related Scheme unitholders.

Class C

Class C consists of unitholders who invested in foreign currencies and are entitled to receive the declared distribution rate.

Subject to the comments relating to the status of the Scheme in note 2(t) above, unitholders are entitled to one vote per unit at unitholders' meetings and as the Scheme is being wound up, unitholders rank after creditors and are equally entitled to the proceeds of the winding up procedure.

(i) Adjustment to the investor funds

Given the discrepancies identified as detailed in Notes 2(r) and 2(t) above in regard to the units of investors who subscribed in a foreign currency and previous capital distributions, and having the benefit of a court order about the calculation of distributions to foreign currency investors, Mr Whyte has recalculated the units as at the commencement of the winding up of the Fund being 8 August 2013 in the Australian Dollar equivalent amounting to \$492,125,624.

6. LOANS AND RECEIVABLES

	30 June 2021	30 June 2020
	\$	\$
Secured mortgage loans	2,308,055	5,058,055
Provision for impairment	(2,308,055)	(5,058,055)
	-	-

Loans and receivables are initially measured at the fair value including transaction costs and subsequently measured at amortised cost after initial recognition. Loans and Receivables are assessed for impairment at each reporting date. Where impairment indicators exist, the recoverable amount of the loan will be determined and compared to its carrying amount to determine whether any impairment losses exists. Impairment losses are recognised when the recoverable amount under the individual loan is less than the carrying amount of that loan.

Material uncertainty regarding recoverability of Loans and Receivables

For loans in default, an impairment indicator arises which requires the recoverable amount of that loan to be determined. The recoverable amount for each individual loan in default has been determined from independent valuations and/or the assets forming the security for the loans. The valuations are based on current market conditions and provide for appropriate exposure to the market and an orderly realisation of assets forming the security for the loans.

In determining the recoverable amounts, there are uncertainties involved in assessing the market values and the ability to realise those market values, particularly where the market is not active. Consequently, it is likely that there may be differences between the amounts at which the Loans and Receivables are recorded in the financial statements at the year end, and the amounts that are actually realised. Such differences may be material. Accordingly, there is a material uncertainty regarding recoverability of Loans and Receivables.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)**Notes to the financial statements for the year ended 30 June 2021****6. LOANS AND RECEIVABLES (Continued)****(a) Provisions for impairment**

The impairment loss expense relating to loans and receivables comprises:

	30 June 2021	30 June 2020
	\$	\$
Opening balance	5,058,055	6,058,055
Impairment losses provided for (recoveries) during the period	(2,750,000)	(987,277)
Impairment losses realised during the period	-	(12,723)
Closing balance	2,308,055	5,058,055
Total provision for impairment	2,308,055	5,058,055

(b) Movement in default loans

	30 June 2021	30 June 2020
	\$	\$
Gross default loans opening balance	5,058,055	6,118,055
New and increased default loans	-	-
Balances written off	-	(12,723)
Repaid	(2,750,000)	(1,047,277)
Gross default loans closing balance	2,308,055	5,058,055
Specific provision	(2,308,055)	(5,058,055)
Net default loans	-	-

7. PAYABLES AND ACCRUED EXPENSES

Payables and accrued expenses are carried at cost or estimated and represent liabilities for goods and services or estimated liabilities of the Fund prior to the period end but have not yet been paid.

	30 June 2021	30 June 2020
	\$	\$
Accounts payable and accrued expenses	5,031,515	4,599,178

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

8. INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings relates to facilities with external providers. In July 2010, the RE entered into a new facility with an external financier, Deutsche Bank. Deutsche Bank holds a fixed and floating charge over the assets of the Fund.

As indicated in Note 1, McGrathNicol were appointed as Receivers and Managers of the Fund by Deutsche Bank as a result of a default of the finance facility by the Fund for this secured loan.

There has been a progressive sell down of the assets of the Fund, which enabled \$14.1M of the loan to be repaid during the 2013 financial year and \$21.5M between July and December 2013. The facility was repaid in full in January 2014. The Receivers appointed by Deutsche Bank retired on 10 December 2018.

9. RELATED PARTIES

	30 June 2021	30 June 2020
	\$	\$
<u>Custodian</u>		
Custodian's fees paid by the Scheme	22,164	17,000
Total	22,164	17,000

10. RECEIVABLES

	30 June 2021	30 June 2020
	\$	\$
Interest receivable	19,662	9,325
GST receivable	158,745	214,110
	178,407	223,435

11. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Financial Position, the cash and cash equivalents comprise of cash at bank and in hand. The cash at bank earns interest at floating rates based on the daily bank deposit rates, however, the majority of the cash balance is invested on term deposit with a bank. The cash at bank figure includes monies held in foreign exchange accounts.

	30 June 2021	30 June 2020
	\$	\$
Cash at bank	27,506,519	34,324,670

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

11. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities

	30 June 2021	30 June 2020
	\$	\$
Change in net assets attributable to unitholders	(7,169,942)	(33,195,785)
<i>Adjustments for:</i>		
Non-cash impairment expense	(2,750,000)	(987,277)
Non-cash accrued expense reduction	-	-
(Gains)/loss on foreign exchange contracts	-	(104)
BDO Capital Distribution to investors	-	27,856,630
(increase)/decrease in other receivables	45,028	(132,666)
Increase/(decrease) in payables	432,338	1,983,372
Net cash flows from/(used in) operating activities	(9,442,578)	(4,475,830)

12. INTEREST REVENUE

Interest revenue relates to interest received on funds held in bank accounts.

Interest on loans is suspended and not brought to account when it is considered that the amounts are not ultimately recoverable from the remaining security for the loans.

13. LITIGATION MATTERS

Claim against the former auditors (EY Proceeding)

A public examination (PE) of the former auditors, certain directors, former directors (Directors) and staff 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 David Whyte 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 David Whyte an application and supporting affidavit on 27 April 2016 seeking to strike-out certain parts of the statement of claim. The hearing of the strike out application was adjourned to a date to be fixed by consent to enable appropriate directions to be made for the parties to exchange and file any further affidavit material and written submissions in advance of the hearing of the strike out application.

On 30 May 2016, David Whyte 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, David Whyte filed a second further amended statement of claim. The parties filed submissions and further affidavit evidence as required by the orders and at the hearing of the strike out application and the commercial list application on 15 December 2016, the Court granted the application to place the proceedings on the commercial list and reserved its decision on the strike out application.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

Claim against the former auditors (EY Proceeding) (Continued)

The reserved decision from the hearing of the strike out application was handed down on 8 May 2017 and the decision was not appealed. In that decision, the Court declined to strike out all of the parts of the claim that the former auditors sought to strike out. However, it did make orders striking out certain causes of action and orders were made that the statement of claim be amended to delete those causes of action.

In accordance with the Court's judgment, a further amended statement of claim was filed on 20 November 2017 and served on the former auditors. This statement of claim included further particulars of the loss and damage claimed, which has been calculated (at its highest) in excess of \$200 million.

Further particulars of loss and damage were also served on the auditors on 12 January 2018.

The amended statement of claim filed on 20 November 2017 included a claim for compensation from the former auditors under section 1325 of the Corporations Act. As a consequence, steps were taken to amend the Claim, which required an application for leave to be made to the Court.

On 29 May 2018, the Court made Orders timetabling 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 filed on 20 November 2017.

A request for further particulars of the further amended statement of claim was received on 19 June 2018. The response to this request was required 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.

The Application for leave to amend the Claim was filed on 10 August 2018. The hearing of the application was held on 27 September 2018.

On 8 October 2018 the Court gave judgment, in which it granted the plaintiff leave to file its amended claim, struck out one paragraph of the further amended statement of claim with leave to replead certain paragraphs and otherwise timetabled the ongoing conduct of the proceedings, including the filing of a further amended statement of claim.

In accordance with orders made on 13 November 2018, Mr Whyte caused a 6FASOC to be served on 30 November 2018. He also served a response to the defendants' request for particulars on 3 December 2018 and 18 January 2019.

The parties engaged in a mediation on 4 March 2019. No resolution of the proceedings was reached at that mediation.

The defendants have also now filed and served third parties notices on the Feeder Funds, as well as directors, former directors, former officers and a former in-house counsel of LMIM.

Subsequent orders have been made by the Court timetabling the ongoing conduct of the Proceedings.

In accordance with these orders:

- on 10 June 2019 the defendants applied to be excused from certain pleading requirements under the Court rules in relation to their defence on the basis of a claim for privilege (**Relief Application**);
- on 21 June 2019, the defendants applied for leave to proceed against LMIM under section 500 of the *Corporations Act 2001* (Cth) (**Leave Application**); and
- on 21 June 2019, Mr Whyte applied to be joined to the proceedings constituted by the Third Party Notice filed by the defendants (**Representation Application**).

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

Claim against the former auditors (EY Proceeding) (Continued)

Each of the Relief Application, the Leave Application and the Representation Application were heard by the Supreme Court on 26 July 2019.

- On 4 October 2019 the Court delivered judgement together with an order that:
 - The defendants application for leave to proceed against LMIM be dismissed;
 - The third party notice be struck out against the first, second, third and fourth parties (namely, LMIM and the Feeder Funds);
 - The third party statement of claim be struck out;
 - The first, second, third and fourth third parties be removed as parties to the proceeding, and
 - Leave be granted to the defendants to re-plead the third party statement of claim against the remaining third parties.
- On 17 October 2019 the Court delivered judgement in relation to the cost of the applications decided on 4 October 2019 and an order was made that:
 - the defendants pay my costs in relation to the leave application, and
 - I pay the costs of LMIM in respect of the representation application, such costs to be indemnified from the FMIF with both LMIM's costs together with my own costs to be costs in the proceeding.
- On 21 November 2019 at a review hearing the Court ordered that:
 - Privilege Claims – I was to file material to strike out the defendants' privilege claims by 29 November 2019 and a hearing is to be listed for my application with submissions to be filed and served five days before the hearing date.
 - Leave Application – I was to confirm any opposition to the defendants' Leave Application by 6 December 2019 and the application is to be listed for hearing with submissions to be filed and served five days before the hearing date.
 - Pleadings – by Friday 29 November 2019 the defendants were to serve any draft counterclaim. The defendants are also to provide their further and better particulars by 20 December 2019 and I am to file any reply and answer to the counterclaim by Friday 28 February 2020.
 - Disclosure – All parties are to seek to agree a disclosure protocol and provide it to the Court by Friday 20 December 2019. Failing agreement each party is to provide their own proposed protocols to the Court.
 - Expert evidence – all parties are to provide to the Court either a joint proposal or respective proposals as to the preparation of reports by expert witnesses by 6 December 2019.
- Since the review hearing on 21 November 2019:
 - My material was filed on 29 November 2019 in support of my application to strike out the defendant's privilege claims.
 - The defendants served a draft counterclaim on 29 November 2019.
 - On 6 December 2019 I confirmed I would not oppose the defendants' Leave Application.
 - Proposals in relation to expert evidence were provided to the Court on 13 December 2019.
- My application to strike out the Privilege Claims was heard on 14 February 2020 (the Privilege Application).

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

Claim against the former auditors (EY Proceeding) (Continued)

Following the hearing of the Privilege Application, the parties were required to provide a schedule to the Court of the various parts of the defence where privilege was claimed and the arguments for and against the maintaining of the privilege claimed. That schedule was provided to the Court on Friday, 20 March 2020. Also following that hearing, the Full Court of the Federal Court of Australia handed down a decision in a case regarding privilege which impacts on the Privilege Application. As a result, supplementary submissions were delivered to the Court addressing matters raised in the Full Court decision. After the Court has given judgment in regard to the Privilege Application, further directions will be made for the progress of the claim.

Pursuant to an Order of the Court dated 28 February 2020, a Seventh Further Amended Statement of Claim (the **7FASOC**) was filed with consent of the defendants on 16 March 2020. The defendants filed their amended defence to the 7FASOC on 18 June 2020.

An Answer to the defendants' Counterclaim was filed on 23 April 2020.

In June 2020 the parties agreed on a document plan and document exchange protocol for the purpose of disclosure. On 23 July 2020, the Court made orders regarding the document plan and document exchange protocol.

On 20 October 2020 the Court made orders striking out certain paragraphs of the Defence and granting the defendants leave to make an application to replead in respect of the paragraphs struck out.

On 28 October 2020 the plaintiff filed its Eight Further Amended Statement of Claim (the **8FASOC**).

Following an application by Mr Whyte to be relived from certain undertakings to the Court, an order was made on 2 November 2020 reliving Mr Whyte from certain undertakings to allow further discovery to be attended to.

On 11 December 2020 further orders were made by the Court providing for further case management, including extending the time for the defendants to file an application for leave to replead their defence, for the plaintiff to provide further particulars of the 8FASOC, for the provision of security for costs by the plaintiff, providing further time for the undertaking of discovery by the plaintiff and the defendants, and to extend the time for the filing of expert evidence by the plaintiff.

On 9 February 2021 further orders were made by the Court for further case management, including extending the time further for the defendants to file an application to replead their defence, extending the time for the filing of certain expert evidence by the plaintiff and extending the time for the parties to provide further disclosure. Further disclosure has been made by the plaintiff.

At a review hearing on 8 March 2021 further orders were made to progress the proceedings including consideration as to whether or not leave is to be given to file the defendants defence, to finalise disclosure and for the provision of lay evidence and further expert reports. The matter was set down for further review on 7 June 2021.

At a review hearing on 7 June 2021 timetabling orders were made for the plaintiff's delivery of the reply to the defence, delivery of further disclosure and delivery by the plaintiff of further expert and lay evidence. Following the review, the reply was filed and served, further disclosure provided, and a large number of expert reports filed and served together with delivery of a significant amount of lay evidence.

At a review hearing on 13 August 2021 timetabling orders were made for the defendants to deliver expert and lay evidence by 13 December 2021 and for further reviews by the Court to occur on 2 and 15 December 2021.

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

Wollongong Coal Ltd (WCL) – Convertible Bonds

There are \$8 million in convertible bonds in Wollongong Coal Limited (WCL) which was the subject of a successful application to the Federal Court acknowledging that Bellpac Pty Ltd (In Liquidation) (Bellpac) (under the control of its liquidators) is the true owner.

The defendants appealed the decision, which was unsuccessful, however, on 12 July 2016, the defendants made application for special leave to the High Court of Australia to appeal the decision of the Federal Court. On 10 November 2016, the High Court refused to grant special leave to the defendants, and dismissed their application with costs.

In January 2016, the Bellpac Liquidator applied for the conversion of the \$8 million Bonds to shares. As WCL did not issue all of the shares as required under the terms of the Bonds, the Bellpac Liquidator brought proceedings against WCL seeking orders requiring WCL to perform its obligation to redeem the Bonds converted to shares outside of the required time.

The Bellpac liquidator and WCL entered into a binding heads of agreement (HOA) relating to the settlement of the litigation commenced against WCL. The terms of the heads of agreement included that WCL pay to Bellpac a settlement sum of \$6.3 million in return for certain releases and Bellpac returning or cancelling the WCL shares issued to Bellpac.

The conditions precedent to the settlement with WCL included obtaining necessary approvals to undertake the settlement transactions. In this regard:

- The Bellpac Liquidator obtained creditor approval to enter into the settlement with WCL;
- The Court declined to exercise its discretion on WCL's application for approval to acquire and or cancel Bellpac's holding of WCL shares. WCL was therefore required to seek shareholder approval.

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

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

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

Creditors approved the revised deed of settlement at a meeting held on 18 November 2020 and \$2.75M was subsequently distributed to the Fund (\$2.5M on 27 November 2020 and \$250K on 11 March 2021). WCL did not opt to buy back the shares within the six month period.

FTI Applications/Indemnity Claims

Mr Park of FTI Consulting is the Liquidator of LMIM (FTI).

Creditor Indemnity Claims

If a debt or claim is admitted by the Liquidator in the winding up of LMIM and a claim for indemnity out of the FMIF with respect to such debt or claim is identified (**Creditor Indemnity Claim**), a summary of the process as outlined in the Orders made on 17 December 2015 is as follows:

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

FTI Applications/Indemnity Claims (Continued)

Creditor Indemnity Claims (Continued)

1. The Liquidator must notify Mr Whyte within 14 days of the Liquidator identifying any claim for indemnity against the assets of the Fund;
2. Within 14 days Mr Whyte may seek further information in relation to the claim;
3. Within 30 days of receipt of the claim from the Liquidator or from receipt of further information requested, Mr Whyte is required to, accept the claim, reject the claim, accept part of it and reject part of the claim; and give the Liquidator written notice of the decision;
4. Mr Whyte is required to give the Liquidator written reasons for rejecting any part of a claim within 7 days after giving notice of his decision;
5. Within 28 days of receiving a notice of rejection, the Liquidator may apply to the Court for directions in relation to the rejection and advise the creditor of Mr Whyte's decision and other specified matters.

The Liquidator notified Mr Whyte that he has identified Creditor Indemnity Claims with respect to a proof of debt lodged by Norton Rose for the sum of \$315,601.21 (**Norton Rose Proof**) and a proof of debt lodged by EY in the sum of \$158,896.51 (**First EY Proof**).

Mr Whyte has written to the Liquidator rejecting the Creditor Indemnity Claim made in respect of the claim notified by the Norton Rose Proof. Mr Whyte has requested further information in relation to the First EY Proof and written to the Liquidator to outline his provisional views in relation to it.

A counter-claim for costs has been made by EY in the EY Proceeding against LMIM as responsible entity of the FMIF, which, if successful, has the potential to exceed any judgment in the EY Proceeding itself by the difference between indemnity costs and a standard costs order.

Third FTI Remuneration Application

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

On 1 June 2021, the Court ordered that Mr Park be paid the sum of \$243,236.90 (including GST) from the FMIF for his remuneration as Liquidator, such sum to include \$170,809.20 (including GST) for Category 1 remuneration for the period 1 July 2018 to 31 October 2020, and \$72,427.70 (including GST) for Category 2 remuneration for the period 1 July 2018 to 31 October 2020.

FTI Remuneration and Expenses Claims as at 30 June 2021

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

- Legal costs attributable to FMIF - \$166,923.19 (excluding GST); and
- Remuneration attributable to FMIF - \$18,283.00 (excluding GST).

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

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

13. LITIGATION MATTERS (Continued)

FTI Applications/Indemnity Claims (Continued)

FTI Remuneration and Expenses Claims as at 30 June 2021 (Continued)

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

Court Appointed Receiver's Remuneration

On 2 March 2021, the Court Appointed Receiver filed an application to Court for approval of his remuneration for the period 1 May 2020 to 31 October 2020 in the sum of \$1,104,433 (including GST). On 26 March 2021, the Court approved this application.

On 14 July 2021, the Court appointed Receiver filed an application to Court for approval of his remuneration for the period 1 November 2020 to 30 April 2021 in the sum of \$1,383,829.15 (including GST). On 13 August 2021, the Court approved this application.

The remuneration of the Court Appointed Receiver, that had not been submitted to the Court for approval or paid as at 30 June 2021 was approximately \$207,494.76 (excluding GST). This figure may be subject to change and is subject to Court approval.

Further applications for approval of remuneration will be made by the Court Appointed Receiver during the course of the winding up.

LMIM Claim

A statement of claim filed in November 2016 to preserve claims in relation to certain transactions and avoid possible expiry of statutory limitation periods has been served on LMIM. The claims are for various alleged breaches of trust in relation to certain transactions including the prepayment of management fees out of property of the FMIF to LM Administration Pty Ltd, and loan management fees paid to LMIM or its service entity LM Administration Pty Ltd that it is alleged were not authorised by the Constitution of the FMIF. On 25 July 2018, the Court granted leave to proceed with this claim and ordered that the claim be stayed until further order. The claim remains stayed until further order.

Claim against Guarantor

PTAL as custodian of the FMIF obtained judgment against a guarantor, for approximately \$3 million, plus interest and costs. The trustee in bankruptcy identified potential recoveries for the benefit of creditors of the bankrupt estate, of which the Fund is a major creditor. The bankrupt, along with other parties, contributed land to a development. The land was subdivided, developed and sold, and the net proceeds of sale in the sum of approximately \$12 million was paid into a solicitors' trust account on an interim basis, protected by certain undertakings given by the solicitors holding the funds. The trustee claimed an entitlement in respect of all or at least a substantial portion of the funds held in the solicitors' trust account; however, other parties to the dispute alleged that associated entities of the bankrupt are entitled to the funds.

PTAL as custodian of the FMIF entered into a Deed of Indemnity to fund a public examination and any agreed recovery proceedings in respect of this matter. A public examination was held in the Federal Court in November 2019. Subsequently, demands were served on several parties. The trustee held two mediations with several parties in relation to the dispute, which culminated in a settlement being reached on 1 September 2021. The gross return to the bankrupt estate from the settlement will be between \$2,882,181 and \$3,832,181, depending upon the outcome of a taxation objection. The Trustee has estimated that the net return to the bankrupt estate, after deducting AFSA realisations charge, repayment of the funding provided by the FMIF, and the current and former Trustee's unpaid remuneration and expenses, will be approximately \$1,004,711 to \$1,964,161, not including allowances for the Trustee's future remuneration and expenses, or any taxation liabilities arising from the settlement. Under the Deed of Indemnity, the Trustee is required to make an application to Court seeking an order

LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)

Notes to the financial statements for the year ended 30 June 2021

Claim against Guarantor (Continued)

giving the FMIF a priority over other creditors. The amount payable to the FMIF will depend upon the outcome of this application.