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TO THE CREDITOR AS ADDRESSED

18 February 2019

Dear Sir/Madam,

KBL Mining Limited (Receivers and Managers Appointed) (In Liquidation) ACN 129 954 365 ("the Company")

Statutory Report by Liquidator

We refer to our last circular to creditors dated 28 June 2018, in which we advised you of our appointment as liquidators following the termination of the Company's Deed of Company Arrangement ("DOCA") on 22 June 2018.

As outlined in our previous updates, it became apparent in the weeks that followed our execution of the DOCA on 2 May 2017 that the existing proponent had reneged on its proposal and refused to sign the DOCA.

In accordance with the DOCA terms, if it became apparent to us as Deed Administrators that the objectives of the DOCA were no longer likely to be achieved, we were obligated to either convene a meeting to terminate or consider alternate options for the DOCA. Given the forecast return to unsecured creditors under the DOCA exceeded that expected to be realised in a liquidation, we determined that it was in the creditors' interests to consider alternate proposals for a DOCA.

We sought and received a number of enquiries from parties that were interested in proposing an alternate DOCA, which could be effected by a variation to the Deed. Despite these endeavours, we were not been able to agree on final terms with any party in an appropriate timeframe to present creditors a variation of the DOCA for consideration. Accordingly, we convened and held a meeting of creditors on 22 June 2018 to terminate the DOCA and Stephen Vaughan and I were appointed as Joint and Several Liquidators of the Company on that date.

The purpose of this report is to:

- provide creditors with an update on the progress of the liquidation; and
- advise creditors of the likelihood of a dividend being paid in the liquidation.

1 Update on the progress of the liquidation

1.1 Assets and liabilities

Attached at Appendix A is a summary of the Company's assets and liabilities as per the Directors' Report as to Affairs (RATA) dated 10 October 2016, provided to us as Administrators on 15 October 2016. The tables and notes within Appendix A were included in our previous reports to creditors during the administration period.

We are unable to provide any updates in respect of the Company's assets until we receive a final report from the Receivers and Managers. However, we understand that the Receivers and Managers have realised all of or the majority of KBL's assets and are in the process of finalising any outstanding Receivership matters and preparing a final report to the Liquidators on the conduct of the receivership.

Attached at Appendix B is a summary of the Liquidators' receipts and payments to date.



1.2 Investigations and recovery actions

1.2.1 Investigations undertaken

Investigations carried out during our appointment as Administrators are contained and detailed within our Report to Creditors dated 25 January 2017, issued pursuant to section 439A of the Corporations Act 2001 ("the Act") and our supplementary Report to Creditors dated 28 March 2018, issued pursuant to Section 439A of the Act. Both reports can be found at our dedicated webpage for the Company's liquidation: <https://home.kpmg.com/au/en/home/services/advisory/deal-advisory/services/restructuring/creditors-shareholders/kbl-mining.html>

1.2.2 Findings and possible recoveries

A liquidator is granted powers to investigate fully the conduct of the Company, its directors, and related parties prior to the appointment of the Voluntary Administrators. Where a liquidator deems it appropriate to do so and where funding is available to do so, the liquidator may bring a number of actions in order to recover funds on behalf of unsecured creditors.

As a result of our preliminary investigations, we identified that:

- KBL may have been insolvent from as early as January 2016 and claims may exist against the Directors for insolvent trading; and
- there may be up to \$6.4m of payments made by KBL potentially being preferential in nature and occurring during the relation-back period, which may be recoverable by the Liquidators

Further inquiries to be undertaken

We provided our supporting investigations and assumptions for the above findings in respect of potential insolvent trading and unfair preference claims in our previous reports to creditors. However, we intend to carry out further investigations in relation to potential recoveries which may be available to the Liquidators in respect of:

- Insolvent trading;
- Unfair preferences;
- Uncommercial transactions; and
- Unreasonable director related transactions.

As per above, there are no assets available to the Liquidators to pursue the above actions, and as such, external funding would need to be arranged. Given the risks attached to litigation, external funding is often expensive, and involves creditors forgoing a degree of upside in order to generate the potential for a return from successful litigation (where the alternative return may be zero). If there are sufficient grounds to warrant pursuing such actions, options available to the Liquidators to assist in funding litigation include:

- Arrange for litigation funding by speculative litigation funders who often share in the proceeds from successful action
- Apply to ASIC for funding from the "Assetless Administration Fund" if the liquidator suspects the Directors have committed offences under the Corporations Act
- An individual or a group of creditors may provide funding for the Liquidators to pursue recovery actions, the costs of which would rank in priority to other creditor claims

In large unfunded Liquidations such as this, litigation funding is the most common source of funding secured by a Liquidator to pursue legal action.

To assist us in forming a view as to what potential returns might be available in a litigation funding scenario we have approached two litigation funders for indicative expressions of interest on what they may be prepared to fund. The two litigation funders have both expressed interest and provided us with indicative non-binding offers, however these offers are commercially sensitive and detailed disclosure of which will undermine a Liquidators ability to negotiate an improved funding solution for creditors.

With a view to protecting the interests of creditors, we have not disclosed details of the offers, however for information purposes have set out below typical commercial terms of a litigation funding packages:

- Funding provided for Liquidators' fees and costs to conduct more detailed investigations in to the Company's affairs, and if necessary, publically examine (in Court under oath) the Directors and other interested parties.
- If litigation is successful, litigation funders receive a proportion of the recoveries
- An indemnity is provided to the Liquidators for adverse costs should litigation be unsuccessful

Prior to commencing any recovery action, we will assess all funding options and consult with the creditors accordingly.

1.2.3 What happened to the business of the Company?

On Monday 19 September 2016, Martin Jones, Andrew Smith and Ryan Eagle of Ferrier Hodgson were appointed as Joint & Several Receivers & Managers ("the Receivers") of KBL by KBL's secured creditor, Quintana. The Receivers took possession of KBL's assets and sought to continue the Company's operations. However, severe rain prevented this and, as a consequence, the Company's operations were effectively put into 'care and maintenance' approximately one week after the Receivers' appointment.

We understand KBL's Receivers and Managers have realised all of or the majority of KBL's assets and a significant shortfall to the secured creditor exists.

2 Likelihood of a dividend

The likelihood of a dividend being paid to creditors will be affected by a number of factors including:

- the identification and successful recovery of any unfair preference and/or insolvent trading claims
- the availability of funding in the liquidation to pursue any unfair preference and insolvent trading claims Company's secured creditors.

Our preliminary investigations indicate the potential for recoveries to be made by a Liquidator of KBL for the benefit of creditors. In our experience, and based on the legal advice we have received to date, there is a significant risk involved in litigation and it is often difficult to make a full recovery of identified claims.

As previously mentioned, there are no assets remaining in the Company available to be realised on behalf of creditors by a liquidator. As stated above, as the liquidation of the Company is currently unfunded; there are no funds available in the Company to fund recovery actions (such as Liquidator fees and costs, any legal costs, or any other costs associated with bringing actions).

To pursue any claims the Liquidators will be reliant on external funding options, such as those referred to in section 1.22 above.

3 Former Employees

As reported to former employees previously, KBL entered Liquidation on 22 June 2018. As such, eligible employees may now commence the process to lodge a claim through the Fair Entitlements



Guarantee Scheme (the FEG) via its online portal. Full information relating to FEG eligibility and how to apply is available online here: www.jobs.gov.au/eligibility-and-how-apply.

The Liquidators have been in regular communication with the Receivers and Managers during our concurrent appointments and we have obtained relevant information from the Receivers and Managers relating to employee entitlements in order to assist the FEG with its claims process. FEG will usually rely on information provided by the Liquidators in the first instance, in relation to the quantum of employee claims as calculated from the books and records of the Company. However, the FEG may request further information or supporting documentation from you directly.

On 19 September 2018 we posted and emailed all employees on record our understanding of their entitlements in accordance with the books and records of the Company, employee contracts, and information provided by the Receivers and Managers. Employees should note that where their employment initially commenced on a casual basis and was subsequently transferred to a permanent basis, entitlements will accrue from the date of commencement as a permanent employee.

We understand that most of KBL's eligible employees have now submitted claims with FEG, however those who have not should now submit their pre-appointment (pre-8 September 2016) entitlement claims to the FEG for review and consideration. We encourage employees to commence the registration process as soon as practicable to ensure they are aware of all requirements and documentation that may be required during this process. Claims must be lodged within 12 months of the date of Liquidation, being 22 June 2018.

Upon review of requirements of the FEG process, should employees require information pertaining to their entitlements they may request that information from us by emailing kbl@kpmg.com.au. Any information provided to employees regarding their entitlements is based on KBL's records and calculations with reference to relevant legislation, and is subject to the review of FEG who will determine the final entitlement owing.

4 Cost of the liquidation

We estimate that our total remuneration for KBL's liquidation will be \$50,000 to \$100,000 (excluding GST), subject to the outcome of our investigations and identification of any recovery actions available to the Liquidators. We do not intend to seek creditor approval of any liquidation fees at this stage of the liquidation.

As at the date of this report, the Administrators and Deed Administrators have received \$200,000 (excluding GST) in respect of fees approved by creditors totalling \$1,258,697 (excluding GST). There are currently insufficient funds available to pay the shortfall in respect of these fees, which remain outstanding.

At the 6 April 2017 meeting of creditors, we sought and obtained approval from creditors for our fees as Deed Administrators totalling \$200,000 (excluding GST). Our fees since appointment as Deed Administrators through to Friday 11 May 2018, total \$190,462 (excluding GST). These fees remain outstanding and there are currently insufficient funds available.

If we successfully recover sufficient funds in the liquidation to satisfy the outstanding Administrators' and Deed Administrators' approved remuneration in full, we may seek creditor approval for any additional fees incurred during the liquidation period.

5 What happens next with the liquidation?

We will progress all outstanding tasks for the liquidation, including:

- Completing our investigations into the Company's affairs
- Completing our reporting to the corporate insolvency regulator, the Australian Securities and Investments Commission (ASIC)
- Pursuing any recoveries available to us as Liquidators, where it is commercial to do so



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We may write to creditors again to provide progress of the liquidation. However, in the meantime if we receive a request for a meeting that complies with the guidelines set out in the initial information provided to you, we will hold a meeting of creditors.

We expect to have completed this liquidation within 12 to 18 months of the date of this letter.

Specific queries may be directed via email at kbl@kpmg.com.au. Please note that we will endeavour to respond to creditor queries within 10 days. However, to the extent that the information is available on the KPMG KBL Information Page you will be directed to that page for information.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Matthew Woods', written over a light blue horizontal line.

Matthew Woods
Liquidator

Appendices

Appendix A – Statement of Assets and Liabilities

Appendix B – Liquidators' Receipts and Payments



APPENDIX A – STATEMENT OF ASSETS AND LIABILITIES

KBL Mining Limited (Receivers and Managers Appointed) (In Liquidation) ACN 129 954 365 ("the Company")

KBL Mining Limited - Report as to affairs dated 10 October 2016		
\$'m	Book value	ERV
Assets		
Interest in land	23.4	Not provided
Debtors	3.1	Not provided
Cash at bank	0.1	Not provided
Stock	1.0	Not provided
Work in progress	0.6	Not provided
Property, plant, & equipment	20.6	Not provided
Other assets-deposits & investments	14.3	Not provided
Total assets	63.1	Not provided
Liabilities		
		Not provided
Amounts owing in respect of assets subject to specific security interest	(2.2)	Not provided
Amounts owing to secured creditors	(31.4)	Not provided
Amounts owing to employees	(0.5)	Not provided
Trade creditors	(15.9)	Not provided
Convertible notes	(10.5)	Not provided
Contingent liabilities	(0.7)	Not provided
Total liabilities	(50.8)	-
Estimated surplus / (deficiency)	12.3	-

Detail in respect of each of the amounts listed in the RATA table above is provided below:

- Interests in land* totals \$23.4m and includes \$22.0m in respect of Mineral Hill and \$1.4m in respect of exploration assets
- Debtors* totals \$3.1m and includes USD\$2.8m in respect of trade receivables owing from MRI Trading AG and \$0.3m in respect of a GST refund from the Australian Taxation Office
- Cash at bank* held in cheque and operating accounts at St George totalling \$0.1m
- Stock* totals \$1.0m and includes various trade related stock used in mine operations including valves, pumps, conveyor parts, hosing, and various other items
- Work in progress* relates to the directors' view of gold concentrate in transit at the date of appointment of administrators and totals \$0.6m
- Property, plant & equipment* totals \$20.6m which represents assets at their written down value (after impairment and/or depreciation) and includes various equipment including buildings, IT equipment, mobile plant & equipment, office equipment, and plant and equipment. The amount included in the RATA is supported by an asset book depreciation report



- g) *Other assets – deposits and investments* totals \$14.3m and includes two term deposits related to environmental bonds and available credit card balances held with St George totalling \$1.7m as well as \$12.6m in respect of investment related to Sorby Hills
- h) *Amounts owing in respect of assets subject to specific security interest* was outlined by the directors to total \$2.2m which is split across 11 assets, the largest being a filter with \$1.4m outstanding
- i) *Amounts owing to secured creditor* totals \$31.4m, which relates to the loan from Quintana discussed in various sections of this report, including section 3.2, Newincco 1347 Ltd
- j) *Amounts owing to employees* totals \$0.55m which includes \$82k in respect of outstanding salaries and wages for amounts unpaid from 1 September 2016 to 7 September 2016 (prior to the appointment of administrators) (\$58k) and an additional \$24k unpaid for August and September, \$367k in respect of outstanding leave, and \$99k in respect of outstanding superannuation
- k) *Trade creditors* per the 10 October RATA totalled \$15.9m which consisted of \$15.2m in respect of trade creditors and \$0.7m in respect of other obligations
- l) *Convertible notes* outstanding totals \$10.3m in the 10 October RATA, which is slightly less than the \$10.5m shown for convertible notes in the KBL financial statements as at 30 June 2016.
- m) *Contingent liabilities* of \$0.7m relates to a mine restoration provision at face value of \$0.9m plus and minus adjustments recorded each year against the provision

Unsecured trade creditors per RATA

The ten largest unsecured trade creditors listed in the 10 October 2016 RATA are set out below. These trade creditors were identified from the supporting aged payables listing appended to the 10 October RATA:

Trade creditors as reported in 10 October RATA		
Creditor name	Count	RATA amount (\$'000)
MAAS Civil Pty Ltd	1	3,194
Pybar Mining Services Pty Ltd	1	2,254
Sun Engineering (QLD) Pty Ltd	1	1,123
Ross Bros Excavation	1	892
May's Earthmoving	1	785
AGL Energy Limited	1	501
Outotec Pty Ltd	1	476
Tablelands Drilling Pty Ltd	1	380
IXOM Operations Pty Ltd	1	364
Uncles Fuels	1	245
Subtotal - 10 largest creditors	10	10,216
Other trade creditors	222	5,022
Additional invoices paid		184
Total	232	15,238
Top 10 creditors % of total unsecured		67%



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Unsecured convertible notes per RATA

The Company's Directors report there was \$10.3m outstanding in respect of convertible notes as at 8 September 2016.

Based on information provided by the Company's pre-appointment registry provider, Boardroom Ltd, there were 1,041 parties listed as holding unsecured convertible notes issued by the Company at the date of our appointment as Administrators. The notes are unsecured, have a 5.5 year term maturing in February 2017 (following a restructure of the maturity of the notes to that date in FY15) and bear interest at a rate of 12% per annum.

The notes can be converted into ordinary shares of the company on a 1 note for 1 share basis at the option of the noteholder at quarterly conversion points and at certain other times (source: FY15 Annual Report). Perpetual continues to act as trustee for the noteholders.



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APPENDIX B – LIQUIDATORS’ RECEIPTS AND PAYMENTS

KBL Mining Limited (Receivers and Managers Appointed) (In Liquidation) ACN 129 954 365 ("the Company")

Liquidators’ Receipts and Payments 22 June 2018 to 13 February 2019		(Incl GST) \$
Receipts		
Deed Administrators’ Cash at Bank		64,382
		64,382
Payments		
Exchange listing fees and costs		(5,931)
Printing and mailing costs		(5,117)
		(11,048)
Cash at Bank as at 13 February 2019		53,334