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Our ref 28585640

CIRCULAR TO CREDITORS

25 January 2017

Dear Sir/Madam

KBL Mining Limited
(Administrators Appointed)(Receivers and Managers Appointed)
ACN: 129 954 365 (“the Company” or “KBL”)

I refer to my appointment as joint and several Voluntary Administrator of the Company on 8 September 2016 pursuant to a resolution of the Directors and section 436A of the Corporations Act 2001 (“the Act”).

We have convened the second meeting of creditors to determine the Company’s future. Accordingly, we enclose our Administrators’ report to creditors pursuant to section 439A(4)(a) of the Act, which includes:

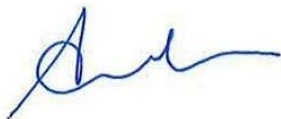
- 1 Notice of concurrent meetings of creditors, being scheduled at:
 - KPMG Sydney, Level 38 of Tower 3, International Towers Sydney, 300 Barangaroo Avenue, Sydney NSW 2000 at 10:00 AM on Friday, 3 February 2017; and
 - Railway Motel Condobolin, 46 Molong St, Condobolin NSW 2877 at 10:00 AM on Friday, 3 February 2017.
- 2 Informal proof of debt or claim form for submission prior to 10:00 AM (AEST) on Thursday, 2 February 2017 via email or delivered to our offices
- 3 Appointment of proxy form for those creditors who wish to attend the meeting, for submission prior to 10:00 AM (AEST) on Thursday, 2 February 2017 via email or delivered to our offices
- 4 The Administrators’ remuneration report explaining their remuneration claim (retrospective and prospective) in accordance with the Act and the Australian Restructuring, Insolvency and Turnaround Association Code

The Administrators’ report to creditors includes an opinion, with supporting reasons, as to whether it would be in the creditors’ interest:

- to approve the proposed Deed of Company Arrangement, or
- for the Company to be wound up, or
- for the Administration to end.

All queries, return informal proof of debt and/or proxy forms in relation to this matter should be directed to AU-FM-KBL-Mining@kpmg.com.au.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'M Woods', with a long horizontal flourish extending to the right.

Matthew Woods
Joint and Several Administrator



KBL Mining Limited

(Administrators Appointed) (Receivers and Managers
Appointed)

**Administrators' report to creditors
in accordance with s.439A of the
*Corporations Act 2001***

Date 25 January 2017
kpmg.com.au

Glossary

ACN	Australian Company Number
Act	Corporations Act 2001 (Commonwealth)
Administrators	Matthew Woods and Stephen Vaughan of KPMG
AEDT	Australian Eastern Daylight Time
AEMR	Annual Environmental Management Review
AEST	Australian Eastern Standard Time
ARITA	Australian Restructuring, Insolvency and Turnaround Association
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AWST	Australian Western Standard Time
BAS	Business Activity Statement
BDO	BDO East Coast Partnership
Capri	Capri Trading Pty Ltd
CBH	CBH Resources Group
CFO	Chief Financial Officer
CIL	Carbon-in-leach
CoC	Committee of Creditors
Constance Range	Constance Range, QLD
Creditors' Trust	As discussed in section 12.2
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	refer to 'the Proposed DOCA' in this glossary
EOI	Expressions of Interest
ERV	Estimated Realisable Value
FEG	Fair Entitlements Guarantee Scheme
FY14	KBL's financial statements as at 30 June 2014
FY15	KBL's financial statements as at 30 June 2015
FY16	KBL's financial statements as at 30 June 2016
GEERS	General Employee Entitlements and Redundancy Scheme
GST	Goods and services tax
IM	Information Memorandum
KBL	KBL Mining Limited
Kidman	Kidman Resources
MAAS	MAAS Group Holdings Pty Ltd
MD	Managing Director
MPA	Metal Purchase Agreement
MRI	MRI Trading AG
PAYG	Pay As You Go withholding tax

Pearse	Pearse Open Cut Pit located at Mineral Hill
PMSI	Purchase Money Security Interest
PPE	Property, plant and equipment
PPSA	Personal Property Securities Act 2009
PPSR	Personal Property Securities Register
Pybar	Pybar Holdings Pty Ltd
Quintana	Quintana Mineral Hill Streaming Company LLC
RATA	Report as to Affairs
Receivers	Receivers & Managers, Martin Jones, Andrew Smith and Ryan Eagle of Ferrier Hodgson
Sorby	project located in Sorby Hills, WA with KBL 75% ownership in a joint venture arrangement
the 10 October RATA	RATA submitted by directors dated 10 October 2016
the 28 September RATA	RATA submitted by directors dated 28 September 2016
the Company	KBL Mining Limited
the Court	Supreme Court of Western Australia
the Directors	Remaining Directors and Resigned Directors
the Proponent	Everblu Capital Pty Ltd
the Proposed DOCA / DOCA	the draft and non-binding Deed of Company Arrangement Proposal as attached in Appendices
the Secured Party or	the seller, owner, lessor, lender, consignee or financier
the Trust	refer to 'Creditors' Trust' in this glossary
the VA Trading Period	the period when the Administrator's traded the KBL business, 8 September 2016 and 18 September
VA	Voluntary Administration
Yuguang	Henan Yugang Gold and Lead, joint venture partner in Sorby

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 - O. ASIC insolvency information for directors, employees, creditors and shareholders
19. Contact us

1. Executive summary

Pursuant to section 439A of the Act, the Administrators must prepare a report to creditors on the Company's business, property, affairs and financial circumstances, and provide their opinions on these and other matters. This report is to be provided to creditors alongside notice of the Second Meeting, and this document has been prepared in satisfaction of that requirement.

1.1. Appointment and purpose of Administration

Matthew Woods and Stephen Vaughan of KPMG were appointed as Joint and Several Administrators ("the Administrators") of KBL Mining Limited ("the Company" or "KBL") at 10am on Thursday 8 September 2016 by James Wall, Robert Besley, and Gregory Starr ("the Remaining Directors").

Voluntary administration is a statutory process designed to provide for the business, property and affairs of an insolvent company to be administered in a way that maximises the chances of the company, or as much as possible of its business, continuing in existence, or if that is not possible to provide for a better return for a company's creditors and members than if the company was immediately wound up.

Following the appointment of Matthew Woods and Stephen Vaughan as Administrators, KBL continued to trade and employ staff with a view to recommencing mining operations whilst a sale or recapitalisation was pursued.

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 recommencement of operations; however, severe rain prevented this and, as a consequence, the operations of KBL were effectively put into 'care and maintenance' approximately one week after the Receivers' appointment.

1.2. Cause of failure

Our preliminary investigation suggests that the issues contributing to the failure of KBL began well before the company was placed in Administration. It is our view that KBL became increasingly undercapitalised over time as a consequence of trading losses, delays in commissioning a new Carbon-in-leach ("CIL") plant, and ongoing capital expenditure requirements.

In late 2015 and early 2016, KBL was under capitalised to the point that it became necessary to negotiate with key suppliers, contractors and statutory bodies in order to extend payment terms and manage day to day liquidity. Throughout 2016, the company was unable to source a longer term capital solution from financiers or equity markets and, in our preliminary view, may have traded whilst insolvent from January 2016 onwards, although a liquidator (if appointed) would need to do further work through investigations to prove up that date.

As noted by the Directors in their Report as to Affairs ("RATA"), an inability to renegotiate an offtake agreement and severe rain at Mineral Hill ultimately rendered continuing operations of KBL untenable.

1.3. Sale and recapitalisation process

Prior to the appointment of Administrators, KBL was in discussions with various parties potentially interested in purchasing the assets or recapitalising KBL. Following their appointment, the Administrators contacted these interested parties to continue discussions and also received a number of unsolicited expressions of interest in KBL.

On 19 September 2016, the Receivers took control of the sale process of KBL and on Wednesday 12 October 2016, advertised for expressions of interest to acquire or recapitalise/restructure KBL and/or its assets. The advertisement detailed the assets of the Company including the Mineral Hill Project and Sorby Hills Project. Submissions of offers were requested by 5pm (AWST) 4 November 2016. A copy of the advertisement is included at Appendix E.

The Receivers issued 39 information memorandums in relation to expressions of interest that included:

- Mineral Hill assets;
- Sorby Hills assets;
- Other mining tenements; and
- A recapitalisation/restructure of part or all of KBL by way of a Deed of Company Arrangement ("DOCA").

Following a data room process, indicative offers were received and nine parties were short listed for site visits and further operational and financial due diligence. Interested parties were requested to submit binding proposals on 7 December 2016.

Based on offers received, the Receivers and Managers have advised:

- They are perusing asset sale agreements for Mineral Hill and the other mining tenements with a view to exercising their power of sale. At this stage, potential sales prices are commercially sensitive and have not been disclosed to the Voluntary Administrators.
- KBL received a DOCA proposal for a recapitalisation of KBL and the Sorby Hills assets which is further discussed below.

We understand the Receivers' asset sales will be insufficient to discharge Quintana's pre appointment claim in full and a shortfall of approximately \$32m is likely. As a result, it is unlikely funds will be available for unsecured creditors from the Receivers' asset realisations.

1.4. Extensions of the Administration period

The timeframe associated with Voluntary Administration provides a condensed period whereby options are explored to restructure a company and maximise returns to creditors. Early feedback provided by potential purchasers was that given the complex nature of KBL's business and assets, the statutory timeframe for a Voluntary Administration (20 business days) was insufficient to properly negotiate and document a sale or recapitalisation.

In order to provide additional time for potential purchasers, and with a view to maximising the returns to creditors and the possibility of KBL continuing in existence, the Administrators made a series of applications to the Court for an extension of the duration of the Administration period (known more formerly as the Convening Period). The Court granted the below extensions:

- Orders received on 4 October 2016 for an extension to 30 November 2016
- Orders received on 24 November 2016 for an extension to 16 January 2017

- Orders granted on 12 January 2017 for an extension to 27 January 2017

Creditors were notified of each extension in writing and via email. Additionally, details of the extensions were announced on the ASX.

1.5. Preliminary investigation findings

In large complex administrations, the short time frame associated with Voluntary Administration limits the extent of investigations which can be performed prior to reporting to creditors. Our preliminary investigations have identified c.\$17.8m of potential recoveries that warrant further investigation which are summarised below:

- Insolvent trading – \$11.4m
- Unfair preferences – \$6.4m

These recovery actions are only available to creditors if KBL is in Liquidation.

Given the complex nature of Australian insolvency law and the potential defences available to Directors and other parties, the above noted actions are often costly and potentially long dated entailing a high degree of risk and uncertainty with no guarantees of success.

In addition, it is uncertain whether funding would be available to a Liquidator 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).

As noted, our investigations are preliminary, should the creditors chose to place KBL into Liquidation a more substantive investigation will be conducted to consider the merits of proceeding with any recovery action having regard to the relative costs and benefits together with the prospects of success and the financial ability of defendants to meet claims.

1.6. DOCA proposal

A draft Deed of Company Arrangement has been received from Everblu Capital Pty Ltd (“the Proponent”). The Proposed DOCA provides for a restructuring of KBL through raising additional equity and providing creditors with a combination of cash and shares to discharge pre appointment debts. The Proposed DOCA recapitalisation proposal involves a number of regulatory and commercial steps in order for the transaction to complete. It is intended that the Proposed DOCA be managed in such a way as to minimise these risks as best as possible, however, there are elements outside of the Administrators’ control which may cause the Proposed DOCA to be terminated or varied.

Until the date of writing this report, the Proposed DOCA included a condition that \$3.6m of the capital raising would be underwritten, providing comfort for KBL to incur additional costs associated with the Proposed DOCA. On the day this report was to be sent, the proponent verbally advised that the offer for underwriting had been withdrawn and that the Proponent would provide best endeavours to arrange additional underwriting as a condition of the Proposed DOCA. In this regard, the underwriting, or alternative funding which leaves creditors no worse off, will be a necessary pre-condition to the Proposed DOCA.

At the time that this report went to print, the amended binding Proposed DOCA proposal had not yet been received. We will update creditors on its progress between now and the second meeting of creditors.

The draft Proposed DOCA treats classes of creditors differently which are subject to a cascading waterfall of priorities. Assuming all Noteholders subscribe to the capital raising (which we believe is likely) the financial outcomes for creditors are principally dictated by the share price of KBL after the capital raising as set out below:

Estimated outcome for creditors for the DOCA			
KBL share price	0 cents	20 cents	40 cents
Secured creditor	Not disclosed	Not disclosed	Not disclosed
Priority creditors	100c	100c	100c
Noteholders	0c	10c	20c
Unsecured creditors	0c	6c	11c

Full details of the Proposed DOCA are provided in Section 12 of this report and attached as Appendix K.

Should creditors resolve that KBL execute a DOCA, the company will have 15 business days to execute a DOCA in substantially the same terms as detailed in this report. Failure to do so may result in KBL being wound up.

1.7. Recommendation

In accordance with section 439A(4) of the Act, the Administrators are required give creditors an opinion as to whether it would be in their interest for KBL to:

- execute a Deed of Company Arrangement (DOCA);
- end the administration and return control to the directors of those companies; or
- be immediately wound up.

It is our opinion that is in creditors' interests to resolve to accept the Proposed DOCA substantially in the form of the draft Proposed DOCA attached as Appendix K, but subject to the Proponent agreeing to include an underwriting of at least \$3.6m or alternate funding such that creditors do not have to bare the costs, should the minimum subscription under the capital raising not be met.

1.8. Second meeting of Creditors

Purpose of the Second Meeting

In accordance with Section 439A(4) of the Act, the purpose of the second meeting of creditors is to consider:

- a) The Administrators' report to creditors on the Company's business, property, affairs and financial circumstances; and
- b) A statement setting out the Administrators' opinion about each of the following matters:
 - i. whether it would be in the creditors' interests for the Company to execute a deed of company arrangement;
 - ii. whether it would be in the creditors' interests for the Administration to end;
 - iii. whether it would be in the creditors' interests for the Company to be wound up; and also setting out:
 - i. his or her reasons for those opinions; and

- ii. such other information known to the Administrators as will enable the creditors to make an informed decision about each matter covered by subparagraph (i), (ii) or (iii); and
- c) if a DOCA is proposed – a statement setting out details of the proposed DOCA.

Pursuant to section 439B(2) of the Act, creditors can also resolve to adjourn the meeting for a period not to exceed forty-five (45) business days.

Our statement of opinion on each of the above matters is set out in Section 15 of this report. Based on our discussions throughout this report, at the Second Meeting of creditors we will be recommending that creditors resolve to execute the DOCA as proposed.

The second meeting of creditors of the Company has been convened for 10:00am Friday 3 February 2017. A formal notice of meeting is attached to this report.

Attendance in person

Creditors who wish to attend and/or vote at the Second Meeting are required to lodge an informal proof of debt and an appointment of proxy form with this office by no later than 10:00am Thursday 2 February 2017.

If an informal proof of debt was lodged with the Administrators for the First Meeting of creditors (or subsequently), a further informal proof of debt is not required to be lodged unless creditors wish to amend their claim in the Administration. In order to vote via proxy at the Second Meeting a proxy form will be required to be completed and returned. Both proof of debt and proxy forms are enclosed at Appendices C and D.

If you are representing a company, please ensure that your proxy is executed pursuant to section 127 of the Act, or that your representative is appointed pursuant to section 250A of the Act (as appropriate), otherwise you will not be entitled to vote at the Second Meeting.

All forms should be scanned and emailed to au-fm-kbl-mining@kpmg.com.au in the first instance or sent by facsimile to the attention of KBL Mining Ltd c/- Leah Diprose on +61 2 9335 7001. Alternatively, forms can be sent by post to the attention of KBL Mining Ltd, c/- Leah Diprose, KPMG Restructuring Services, PO Bo H67, Australia Square, NSW, 1213. If you elect to post the forms, please ensure that sufficient time is allowed for posted forms to reach this office prior to the Second Meeting, forms received after 10:00am Thursday 2 February 2017 may not be executed.

Attendance by phone

Teleconference facilities are available for creditors who are unable to attend the Second Meeting in person.

In order to use this facility, creditors require approval by the Administrators or one of their representatives. Creditors who wish to attend and vote at the Second Meeting via teleconference must lodge an informal proof of debt and appointment of proxy form with this office in accordance with the above deadline.

If you intend to access the teleconferencing facilities, a request should be submitted to us via email to au-fm-kbl-mining@kpmg.com.au as soon as possible, so that teleconference details may be provided.

Dated: 25 January 2017

Matthew Woods

Joint & Several Administrator

2. Introduction

2.1 Purpose of this report

This report is prepared pursuant to s439A (4) of the Act, to assist creditors of KBL in their decisions concerning the future of the Company.

This report has been prepared drawing information from a variety of sources including KBL's books and records, publicly available information, RATA submitted by the Remaining Directors, discussions with the Receivers, the directors, staff, clients, suppliers, and other creditors.

The strict reporting timeframes prescribed under Part 5.3A of the Act mean that professional judgement must be exercised in relation to a balance between speed of reporting and the extent and nature of our investigations which are, in essence, only preliminary in nature. We have not independently verified information presented in this report unless noted otherwise.

Should creditors resolve to place KBL into liquidation, further investigations would be required into the conduct of the business, any possible breaches of the Corporations Act and avenues for recovery for creditors, such as any possible claims in respect of trading whilst insolvent, preferential payments, or voidable transactions.

We reserve the right to alter any conclusions reached on the basis of any further information which may become available to us between the date of this report and the date of the Second Meeting.

We recommend that creditors seek independent advice as to options available and also review the information sheets provided by ASIC, attached to this report and available on the ASIC web site at <http://asic.gov.au/regulatory-resources/insolvency>.

2.2 Objective of Voluntary Administration

Part 5.3A of the Act deals with the Voluntary Administration regime, procedures, and provides for the affairs of an insolvent company to be administered in a way that either:

- Maximises the chance of the company, or as much as possible of its business, continuing in existence; or
- If it is not possible for the company or its business to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

Given the appointment of Receivers to KBL by KBL's secured creditor, Quintana, on 19 September 2016, and their subsequent control of KBL's business and assets, our focus has been directed toward:

- Finalising trading affairs of KBL that occurred during the Administrators' trading period (8 September to 18 September 2016) ("the VA Trading Period");
- Liaising with the Receivers and Managers regarding expressions of interest received during their campaign in terms of proposals for a DOCA that may result in a better return to creditors; and
- Completing our statutory investigations into the affairs of KBL as prescribed by the Act and reporting to creditors.

3. Background to KBL

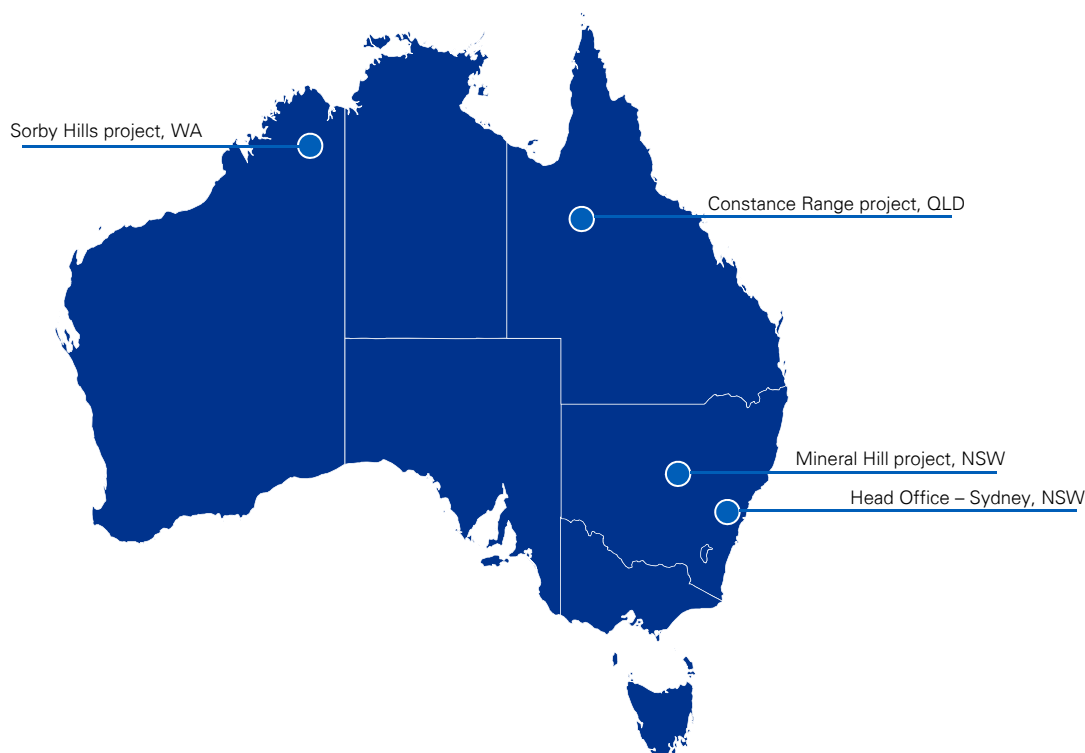
3.1 Operation and mining interests

Key interests

KBL holds mining interests in three regions listed below and detailed in this section:

- 1) Mineral Hill, NSW – operational (now on care and maintenance)
- 2) Sorby Hills, WA – exploration and development
- 3) Constance Range, QLD – exploration

KBL operations map



Source: KPMG, based on KBL Annual Financial Reports FY09 – FY15

Mineral Hill, NSW – KBL 100% Ownership

Mineral Hill is located 65km north of Condobolin in central western New South Wales. The site is approximately 500km west-north-west of Sydney and located with road and rail access to Port Botany.

The project is situated within the Cobar Basin of the Lachlan Fold Belt and is a structurally controlled ore system containing multiple high grade, low tonnage poly-metallic ore bodies. Its geology is characterised by distinct metal zonation across the mineralised system. Historic mining on the deposit began as early as the late nineteenth century; however, it wasn't until 1989 that modern mining operations commenced. KBL has operated the site since 2010.

The Mineral Hill project consists of both the Pearse Open Cut Pit and the Mineral Hill Underground operations. KBL processes ore by conventional crush-grind-flotation for the production of gold-silver concentrates, while flotation tails are processed through the CIL circuit plant, producing an end product of gold doré.

Concentrate containers are sent by road to Narromine and railed to Port Botany, before being shipped to overseas smelters.

Mineral Hill Underground (“Mineral Hill”): Development of the Mineral Hill underground mine commenced in 1989, with KBL operating the site since 2010. Underground operations at Mineral Hill are conventional in nature and, prior to the commencement of mining at Pearse, have been focused on the Southern Ore Zone Lodes. KBL reported that ore extraction was maintained at approximately 230,000 tonnes p.a. with processing by sequential flotation for the production of two concentrate products:

- 1) a copper concentrate with gold and silver credits; and
- 2) a lead concentrate with gold and silver credits.

KBL reported that recoveries for copper range but averaged above 85%, while the lead recoveries were closer to 50%.

At the time of the appointment of Administrators, the underground mine had ceased production due to significant weather events in the region and, despite efforts to recommence production during our appointment and the appointment of Receivers, the mine remains in care and maintenance at the time of writing.

Mineral Hill resource and reserves: The Mineral Hill project contains further undeveloped tenements of precious metals (Pearse North) and base metals (A Lode and G & H Lodes).

Pearse Open Cut Pit (“Pearse”): Development of the Pearse gold-silver open pit commenced in May 2015 and provided ore during KBL’s operations.

The open cut operations at Pearse were operated by MAAS Group Holdings Pty Ltd (“MAAS”) and Mays Earthmoving under the direction of KBL senior employees until the appointment of the Administrators on 8 September 2016.

Sorby Hills, WA – KBL 75% ownership, joint venture arrangement (“Sorby”)

Sorby is a large, undeveloped near surface silver-lead resource located in the north-eastern corner of the Kimberley region of Western Australia discovered in 1971. It is approximately 50 kilometres from the Kimberley regional centre, Kununurra and 150 kilometres by sealed road to the operational mineral export port at Wyndham.

From 1972 to 1988, 889 holes were drilled at Sorby Hills and three feasibility studies were completed between 1974 and 1979, which were closely followed by a collapse in the silver price in 1980 from \$50 per ounce to less than \$5.

KBL acquired the project in 2008 and KBL renewed the mining leases for a further 21 years in February 2010. The renewal of the leases, together with on-going work with local authorities, enabled the project to move towards development, although it remained in exploration phase at the date of our appointment as Administrators. KBL reported that the economics of Sorby would be improved by strengthening silver prices and improvements in the price of lead, the core minerals at the site, together with a change in mine plan from an underground operation to a shallow open pit operation.

Joint venture and offtake at Sorby

In September 2010, a two part agreement was reached with a large silver, gold and lead smelter group based in China, Henan Yuguang Gold and Lead (“Yuguang”). Yuguang is listed on the Shanghai Stock Exchange and has an assets of RMB 5 billion and revenue over RMB10 billion.

Under the agreement, Yuguang subscribed for \$5.2m worth of KBL shares and contributed \$5.0m to earn a 25% joint venture interest in Sorby.

KBL remains the joint venture operator with Yuguang entitled to 25% of all minerals produced at Sorby Hills. In addition, Yuguang has the right to purchase a further amount of minerals at the site (at market pricing) from KBL’s 75% entitlement to production. The amount of mineral available for further purchase by Yuguang is calculated with reference to Yuguang’s percentage shareholding in KBL.

Yuguang may be entitled to a higher portion production if it elects to assist KBL in funding its share of development costs. The JV is managed by a management committee who controls and oversees all business and affairs of the Joint Venture with one representative from Yuguang and two from KBL. With the resignation of the Remaining Directors on 17 November 2016, the management of the JV is currently not active.

Constance Range, QLD - KBL 30% ownership (“Constance Range”)

Constance Range is an exploration asset for KBL. KBL has a 30% joint venture interest in Constance Range. During the 2012 financial year the operatorship of the joint venture reverted to 70% joint venturer Queensland Iron Pty Ltd (a wholly owned subsidiary of Viento Group Limited) Development options and infrastructure needs were being reviewed in discussion with relevant Queensland government authorities and other key stakeholders.

The site is located in the north-western corner of Queensland and was initially discovered by BHP in 1956, BHP undertook exploration of Constance Range until 1963. Subsequent exploration by CBH Resource established an initial resource of c296m tonnes with a grading of 53.1% Iron and 10.4% silica.

Following exploration of the site, the value of Constance Range was written down to zero in the financial year ended 30 June 2015.

3.2 Company history

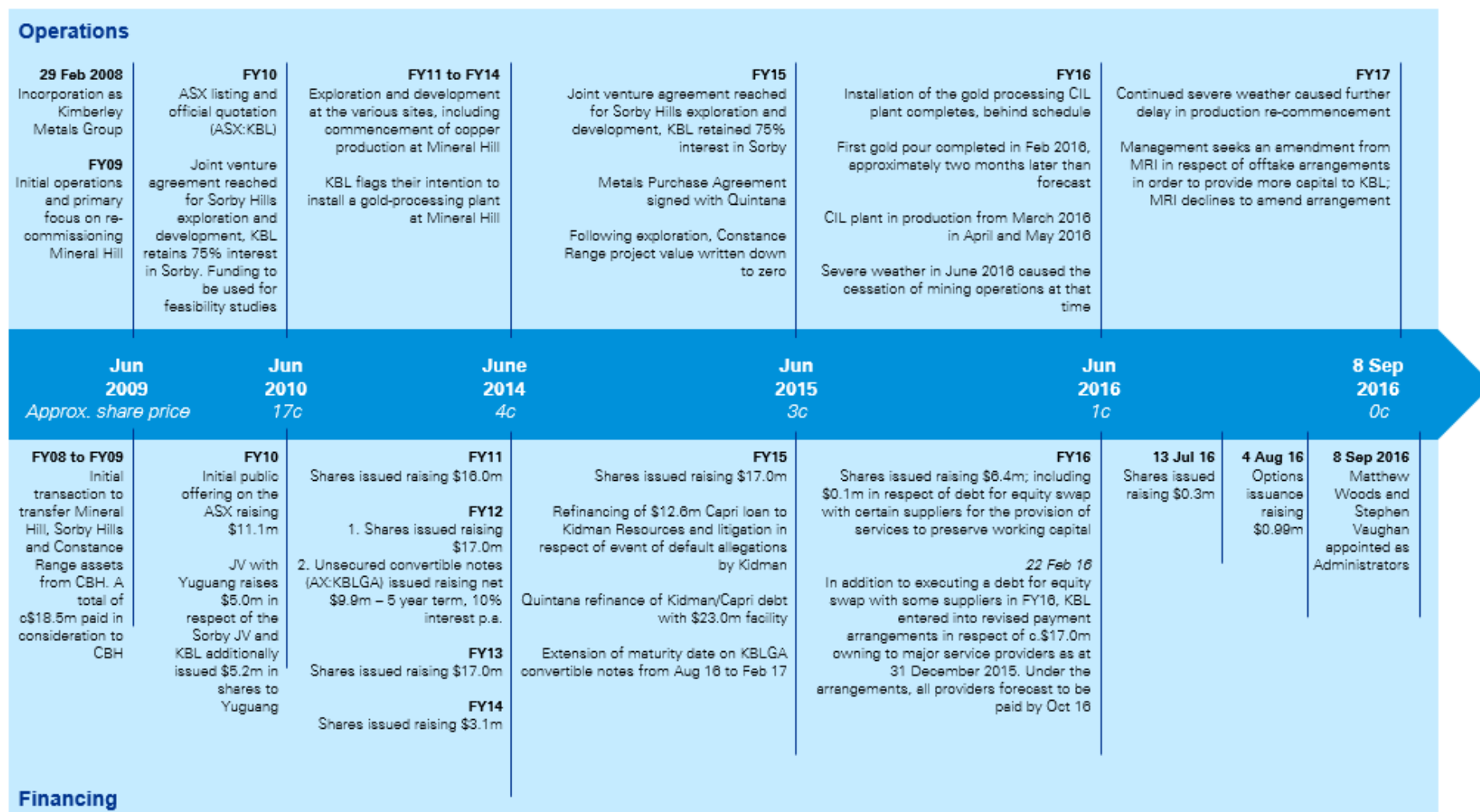
KBL was incorporated as Kimberley Metals Limited on 29 February 2008 following the transfer of pre-development projects acquired from the CBH Resources Group (“CBH”) at Mineral Hill, NSW; Sorby Hills, WA; and Constance Range, QLD.

KBL listed on the ASX in early 2010 and during the period 2008 to 2016 sought support from shareholders, and noteholders to develop their Mineral Hill mine site to operational status, and to continue exploration at Sorby Hills, WA, and Constance Range, QLD.

A summary timeline of KBL’s history is set out on the following page in diagram form and a detailed timeline of events is set out in Appendix F.

Should the reader wish, full details and disclosures released by KBL remain available on the ASX website via ‘Announcements’.

KBL Mining Ltd - timeline



Source: KBL Annual Reports; Management Accounts; KBL ASX Announcements; discussions with management; Yahoo Finance, KPMG ref 28315667_7

3.3 Appointment of Administrators and Receivers and Managers

Appointment of Administrators – 8 September 2016

Section 436A of the Act prescribes that a company may, by writing, appoint administrator if its board thinks it is or will become insolvent. A company may, by writing, appoint an administrator of the company if the board has resolved to the effect that:

- 1) in the opinion of the directors voting for the resolution, the company is insolvent, or is likely to become insolvent at some future time; and
- 2) an administrator of the company should be appointed.

Pursuant to s436A, on Thursday 8 September 2016, Matthew Woods and Stephen Vaughan (“the Administrators”) were appointed as Joint and Several Administrators of KBL Mining Limited (“the Company” or “KBL”) by the Remaining Directors voting in favour of a resolution to appoint the Administrators at that time.

The Administrators, both registered and official liquidators and members of the Australian Restructuring, Insolvency and Turnaround Association (“ARITA”), consented, prior to their appointment, to act as administrators of the Company.

What is Voluntary Administration (“VA”)?

Voluntary administration forms part of Australia’s insolvency regime which is governed by the Act and ARITA.

VA is an insolvency procedure where the directors of a financially troubled company, or a secured creditor with a charge over the whole or substantially the whole of the company’s assets, may appoint an external administrator called a ‘voluntary administrator’.

The role of the voluntary administrator is to investigate the company’s affairs, to report to creditors, and to recommend to creditors whether the company should enter into a deed of company arrangement, go into liquidation, or be returned to the directors.

The effect of the appointment of a voluntary administrator, or voluntary administrators, is to provide a company with ‘breathing space’ while the company’s future is resolved.

While a company is in voluntary administration unsecured creditors cannot begin, continue, or enforce their claims against the company without the administrator’s consent or the court’s permission.

After investigating the affairs of the company and forming an opinion on the options available to creditors, the administrator must provide a report to creditors (this report) and call a second meeting of creditors to consider the future of the company.

Appointment of Receivers and Managers – 19 September 2016

On Monday 19 September 2016, Martin Jones, Andrew Smith and Ryan Eagle were appointed as Joint and Several Receivers and Managers (“the Receivers”) of KBL Mining Limited under the powers contained in the General Security Deed dated 16 March 2015 between KBL subsidiary Newincco 1347 Limited and Quintana. Quintana’s security interests are registered in the Personal Property Securities Register bearing registration number 201503160013006 securing all amounts owing subject to a deed of priority.

The Receivers took control of KBL’s operations as at the date of their appointment and are undertook an immediate assessment of KBL’s affairs while the business continued to trade. Under the

leadership of the Receivers and Managers, the mine site at Mineral Hill continued to experience heavy rainfall, leading to further set-backs in re-commencing production. As a consequence, the operations of KBL were effectively put into 'care and maintenance' approximately one week after the Receivers' appointment.

3.4 First meeting of creditors – 20 September 2016

Pursuant to Section 436E of the Act, voluntary administrators are required to hold a first meeting of creditors within 8 business days following their appointment to a company.

The first meeting of creditors for KBL was held concurrently at two locations at 10:30am on Tuesday 20 September 2016, with the locations being The Grace Hotel, 77 York Street, Sydney, NSW, 2000, and The Railway Hotel, 46 Molong Street, Condobolin, NSW, 2877.

The purpose of the first meeting of creditors is for creditors to vote on:

- 1) Whether the administrators as appointed should continue or be replaced by other administrators; and
- 2) Whether to appoint a committee of creditors ("CoC") and if so, who would be the members.

There was no resolution proposed to replace the Administrators.

Creditors of KBL voted to form a CoC at the first meeting, the membership of the KBL CoC is set out below:

KBL Mining Limited - Committee of Creditors		
Name	Company represented	Stakeholder group
Grant Jolliffe	n/a	Employees
Dawn McCahon	Ross Bro's Excavations	Trade creditors
Steve May	Mays Earthmoving	Trade creditors
Gaby Berger	Berger Equities	Noteholders
Daniel Rose	Perpetual	Trustee
Angela Martin	Quintana	Secured creditor
William (Bill) Czernak	n/a	Noteholders

Source: KPMG

Minutes of the first meeting has been lodged with ASIC and may be obtained by creditors directly from ASIC or by contacting this office.

Meetings of the Committee of Creditors

Several meetings of the Committee of Creditors have been held in order to provide updates on the Administration of KBL, and consider resolutions that the Administrator apply to the Court for an extension of the convening period, and for the consideration of approval of the Administrators' remuneration for the VA Trading Period. The resolutions passed at each meeting are detailed below:

- 30 September 2016 - Resolved that the Administrators should apply to the Court for an extension of the convening period to 30 November 2016
- 23 November 2016 – Resolved that the Administrators should apply to the Court for an extension of the convening period to 16 January 2017
- 8 December 2016 - Resolved that the Administrators' remuneration for the period 8 September 2016 to 18 September 2016 should be approved in the amount of \$288,331.50

- 10 January 2017 – Resolved that the Administrators should apply to the Court for an extension of the convening period to 27 January 2017

Minutes of the above meetings of the Committee of Creditors have been lodged with ASIC and may be obtained by creditors directly from ASIC or by contacting this office.

3.5 Second meeting of creditors – scheduled for 3 February 2017

Section 439A of the Act requires that the Administrators prepare a report to creditors regarding the business, property, affairs, and financial circumstances of KBL and provide our opinion as to the options available to creditors in relation to the future of the Company. We are also required to convene a second meeting of creditors, where creditors may vote for the next steps for the Company.

Purpose of the second meeting of creditors

At the second meeting of creditors this report will be presented along with any further information relevant to the meeting.

Creditors will be given the opportunity to consider and discuss the alternatives available to them.

Voting at the second meeting of creditors

Creditors who have duly registered to vote at the second meeting of creditors (refer to 'Attendance in person' and 'Attendance by telephone') may resolve one of the following in respect to each company:

- That the company execute a Deed of Company Arrangement
- That the administration end (and therefore control reverts back to the directors)
- That the company be wound up (placed into liquidation)

How you vote at the meeting on the three possible options is a commercial decision for you based on your assessment of:

- the company's affairs and the appropriate course of action, with the assistance of your own knowledge and this report prepared on for creditors;
- and your personal circumstances.

The information provided by the Administrators, including opinions expressed, will assist you in reaching your decision; however, you are not obliged to accept our recommendation.

Creditors may also resolve to adjourn the second meeting for a period of up to 45 business days.

Further information on the meetings and voting is set out in the ASIC information sheet No 74, Voluntary administration: A guide for creditors Appendix G.

Time and place

The second meeting has been convened to be held concurrently at two locations at 10:00am (AEST) on Friday 3 February 2017 as follows:

- 1) **Sydney, NSW:** KPMG Sydney – L38, Tower 3, 300 Barangaroo Ave, Sydney, NSW, 2000 (Rms 22 Horizon & 23 Nexus)
- 2) **Condobolin, NSW:** Condobolin Railway Motel – 46 Molong St, Condobolin, NSW, 2877

Prior to the meeting: ensure proof of debt and proxy (if applicable) have been submitted in accordance with directions outlined in the executive summary of this report under sections 'Attendance in person' or 'Attendance by telephone'.

Registration on the day of the meeting: open from 1 hour prior to the meeting

Documents for the meeting

The following documents are attached with this report in relation to the second meeting:

- 1) **Notice of Meeting of Creditors** (Form 529);
- 2) **Appointment of a Proxy Form** (to be submitted if representing a company or if someone will attend the meeting on your behalf); and
- 3) **Informal Proof of Debt** (for voting purposes only) – if you submitted an informal proof of debt for the first meeting, you do not need to resubmit a proof of debt for the second meeting; however, if you represent a company or wish to have someone represent you at the second meeting for voting purposes, a new proxy form must be submitted to us.

Submitting your formal proof of debt and appointment of proxy form

Creditors who wish to attend and/or vote at the second meetings are required to lodge an informal proof of debt and proxy form **by email** by no later than 10:00am (AEDT) on Thursday 2 February 2017. All forms should be scanned and emailed to au-fm-kbl-mining@kpmg.com.au and include the following subject-line to the email: *KBL Mining – Proof of debt – [Insert your creditor name]*

If email is not possible for you, you may submit your forms by facsimile to the attention of 'KBL Mining Limited c/- Leah Diprose, KPMG Restructuring Services' to +61 2 9335 7001.

Alternatively, forms may be sent by post to 'KBL Mining Limited, c/- KPMG Restructuring Services, PO Box H67, Australia Square, NSW, 1213'. If you elect to post the forms, please ensure that ample time is allowed for posted forms to reach this office on or before 10:00am (AEDT) on Thursday 2 February 2017.

Forms received after 10:00am (AEDT) on Thursday 2 February 2017 may not be executed, which will prohibit your ability to vote the second meeting.

3.6 Statement of independence

Enclosed with our circular to creditors dated 12 September 2016 was the Administrators' Declaration of Independence, Relevant Relationships and Indemnities ("DIRRI") (pursuant to s436DA of the Act and the ARITA Code of Professional Practice).

No further information has come to our attention that should be included in our DIRRI. A copy of the DIRRI is included with this report at Appendix H.

4. Structure of KBL and key stakeholders

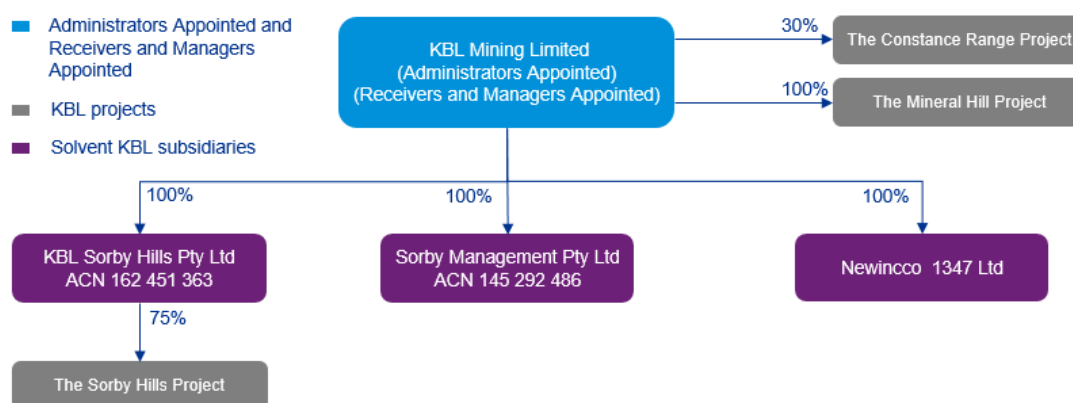
4.1 Statutory information including structure and management of KBL

Incorporation details of each company in the KBL Group are summarised below, noting that our appointment relates directly to KBL Mining Limited only:

Incorporation details – KBL group entities			
Company	ACN	Date of incorporation	Registered office / principal place of business
KBL Mining Limited	129 954 365	29/02/2008	Level 3 2 Elizabeth Plaza North Sydney NSW 2060
KBL Sorby Hills Pty Ltd	162 451 363	19/02/2013	Level 3 2 Elizabeth Plaza North Sydney NSW 2060
Sorby Management Pty Ltd	145 292 486	19/07/2010	Level 3 2 Elizabeth Plaza North Sydney NSW 2060
Newincco 1347 Ltd			United Kingdom

Source: KPMG; FY15 Annual Report

The KBL group corporate structure is set out below:



Source: ASIC; KPMG

KBL Mining Limited (“KBL”)

KBL is the main trading entity and employment entity of the KBL Group. KBL holds a 100% interest in the operational Mineral Hill Project, a 75% interest in the exploration phase Sorby Hill Project via KBL Sorby Hills Pty Ltd, and a 30% interest in the exploration phase Constance Range Project

4.2 Solvent subsidiaries of KBL

KBL Sorby Hills Pty Ltd

KBL holds 100% of the shares in KBL Sorby Hills Pty Ltd, which hold a 75% interest in the joint venture exploration and development mining tenements at Sorby Hills, WA.

Sorby Management Pty Ltd

KBL holds 100% of the shares in Sorby Management Pty Ltd, an employment entity in respect of the Sorby Hills project ("Sorby").

Newincco 1347 Ltd

KBL holds 100% of the shares in Newincco 1347 Ltd, an entity incorporated in the United Kingdom.

Newincco 1347 Limited entered into a Metal Purchase Agreement ("MPA") with Quintana Mineral Hill Streaming Company Limited ("Quintana") in the year ended 30 June 2015 which provided KBL with USD\$23.0m in advance on account of future sales of base metals, silver and gold to be produced at Mineral Hill for the life of mine.

On the morning of Monday 19 September 2016, Martin Jones, Andrew Smith and Ryan Eagle were appointed as Joint and Several Receivers and Managers ("the Receivers") of KBL under the powers contained in the General Security Deed, dated 16 March 2015, between Newincco 1347 Limited, KBL, and Quintana. The security interests are registered in the PPSR bearing registration number 201503160013006 in respect of Mineral Hill.

4.3 Directors

At the date of our appointment as Administrators, 8 September 2016, the KBL directorship was held by the following directors ("the Remaining Directors"):

- James Wall – Chairman of the Company; Non-Independent Director
- Gregory Starr – Managing Director; Non-Independent Director
- Robert Besley – Independent Director

The tenure of the directorships of the Remaining Directors is summarised as follows:

KBL directors at appointment of administrators			
Name	Position(s) held	Date appointed	Date resigned
James Arthur Wall	Chairman of the Company; Non-Independent Director	29/02/2008	17/11/2016
Robert Ellis Besley	Independent Director	29/02/2008	17/11/2016
Gregory Barry Starr	Managing Director; Non-Independent Director	18/11/2013	17/11/2016

Source: Current and historical company search of KBL; KPMG

On 17 November 2016, the Remaining Directors tendered their resignation as directors of the Company and subsidiaries effective immediately.

This action may give rise to a breach of s201A of the Act, which requires a public company must have at least 3 directors (not counting alternate directors), and at least two of those directors must ordinarily reside in Australia.

We are of the view that a precondition to any Deed of Company Arrangement is the reinstatement of the required number of Directors to KBL. We note that this is resolved under the Proposed DOCA.

It is noted that the day prior to the appointment of Administrators, the following Quintana related directors resigned from their positions as directors of the Company (“the Resigned Directors”):

- Lawrence Mckeen Roulston – Non-Independent Director
- Oliver Rodz – Non-Independent Director
- Charles Parsons Brown – Non-Executive Director

4.4 Shareholders

The Company is listed on the ASX, under the stock code *KBL*. Per Boardroom’s records, KBL had 2,658,150,436 shares on issue as at the date of our appointment, 8 September 2016.

Per KBL’s FY15 Annual Report, around one year prior to our appointment, at 23 September 2015, KBL had 620,930,783 shares on issue, with the top 10 shareholders at that time listed as follows:

Shareholder summary - top 10 ordinary shareholders as at 23 September 2015		
Shareholder name	Number of shares on issue	% of total issue
Citicorp Nominees Pty Limited	67,609,144	10.89%
Bnp Paribas Nominees Pty Ltd <Global Prime Omni Drp>	45,572,917	7.34%
Hsbc Custody Nominees (Australia) Limited	45,363,008	7.31%
Yuguang (Australia) Pty Limited	20,813,626	3.35%
Mr Mattheus C M Groot	6,364,173	1.03%
J P Morgan Nominees Australia Limited	5,967,995	0.96%
Mr Archibald Geoffrey Loudon	5,833,462	0.94%
Pershing Australia Nominees Pty Ltd <App Securities A/C>	5,208,332	0.84%
Berger Equities Pty Ltd <Berger Super Fund A/C>	5,197,005	0.84%
Jim Wall & Associates Pty Ltd	4,919,429	0.79%
Total top 10 shareholders	212,849,091	34.28%
Other shareholders	408,081,692	65.72%
Total issued capital	620,930,783	100.00%

Source: FY15 Annual Report

4.5 Registered charges

The Act and PPSR apply to security over personal property – property that is not land or fixtures to land (i.e. real estate and buildings). Personal property can be owned by a commercial organisation or an individual.

A business can use personal property as collateral (as security for a debt owed to sellers or financiers), and this can include goods leased or hired, or received on consignment. In such cases, the seller, owner, lessor, lender, consignor or financier (“the Secured Party” or “Secured Parties”) – has a security interest in the collateral. A security interest must be registered on the PPSR by the secured party to ensure their interest is secured. The debtor, buyer or customer who offers the collateral as security, is called the grantor under the Act.

A PPSR search indicated that KBL was a grantor of 87 registered charges, as listed on the PPSR, in respect of 63 unique Secured Parties as summarised below:

Schedule of Personal Property and Security Registration charges

Registration type	Numbers of registrations
Account	1
All PAAP No Except	2
All PAAP With Except	1
General Intangible	1
Intermediated Security	1
Investment Instrument	1
Motor Vehicle	17
Other Goods	63
Total	87

Source: PPSR searches

We provide comment below in respect of a number of Secured Parties with PPSR registered charges over all or certain assets of KBL are outlined below.

The PPSR included charges registered by the secured creditor, Quintana, as well as offtake partner MRI, and subcontractors MAAS, and Pybar, as detailed below:

- Quintana – Quintana Mineral Hill Streaming Co. LLC, an affiliate of Quintana Minerals Corporation, provided KBL with funding in connection with a Metals Purchase Agreement on account of future sales of base metals, gold and silver streaming at 24.1%. The agreement is secured by a registered security over all present and after acquired property of KBL and provide Quintana with the ability to nominate three directors to the Board of KBL.
- MRI – MRI Trading AG (Switzerland) were the main offtake party and purchaser of concentrate produced at KBL’s Mineral Hill mine. MRI have a first ranking security over KBL’s shares in KBL Sorby Hills Pty Ltd and Sorby Management Pty Ltd which hold an interest in the Sorby Hills joint venture, and ranks in priority to Quintana’s general security.
- MAAS – MAAS Group Holdings Pty Ltd were the major subcontractor to KBL providing open cut mining operations at Mineral Hill. MAAS have a first ranking security interest over some of KBL’s exploration tenements, this charge ranks in priority to Quintana’s general security, although it is subject to the terms of a Deed of Priority.
- Pybar– Pybar Holdings Pty Ltd were the underground mining contractor for KBL at Mineral Hill. Pybar have a first ranking security interest over a KBL exploration tenement that ranks in priority to Quintana’s general security.

Other security interests listed in a PPSR search in respect of KBL include:

- Allightsykes Pty Ltd – motor vehicle related
- Caterpillar Financial Australia Limited – motor vehicle related
- Coates Hire Operations Pty Limited – motor vehicle related
- JTMEC Pty Ltd – motor vehicle related
- Kennards Hire Pty Limited – motor vehicle related
- Pybar Holdings Pty Limited – motor vehicle related
- St. George Finance Limited – motor vehicle related
- The Trustee For Xiberras Family Trust – motor vehicle related
- 38 registrations in relation to other goods, usually specific property such as leased assets

Pursuant to s275 of the Personal Property Securities Act 2009 (“PPSA”), following our appointment, we wrote to each of these Secured Parties and sought particulars of possible claims in relation to

KBL's assets. We have been liaising with the Secured Parties regarding the registered charges. Following the appointment of Receivers and Managers, the Receivers took over discussions with other Secured Parties.

5. Historical financial performance

5.1 Preparation of financial statements

KBL's financial statements were prepared on a consolidated basis for KBL and any interests it controlled at the time. At our appointment KBL's financial statements were audited by BDO East Coast Partnership ("BDO").

Summarised below are KBL's financial statements for financial years ending 30 June 2014 ("FY14"), 2015 ("FY15"), and 2016 ("FY16"), noting that the financial statements were audited in FY14 and FY15 but had not yet been audited for FY16 at the time of our appointment. We note that at the time of our appointment, the Company was preparing the full year accounts for audit.

Auditor's opinion for FY14, FY15 financial statements

Financial Year 2014 – emphasis of matter audit opinion

In respect of KBL's financial statements for financial year ended 30 June 2014, BDO expressed an 'emphasis of matter' opinion, drawing attention to the following:

"Note 1 in the financial report, which indicates that the consolidated entity's current liabilities exceeded its current assets by \$6,505,681 as at 30 June 2014. This condition, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

Financial Year 2015 – unqualified audit opinion

In respect of KBL's financial statements for the financial year ended 30 June 2015, BDO expressed an unqualified opinion.

Financial Year 2016 – emphasis of matter opinion on a review of half year accounts to 31 December 2015

In respect of KBL's financial statements for the financial year ended 30 June 2016, no audit was completed prior to the appointment of Administrators on 8 September 2016.

KBL did prepare accounts for half year FY16 as at 31 December 2015 and BDO conducted a review (not an audit) of those half year financial results; BDO provided an emphasis of matter in relation to Note 1 – going concern, drawing attention to the following:

"Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful deferment and renegotiation of payment terms with creditors, conversion of creditors to equity, successful commissioning of processing plant, raising of necessary funding through debt and equity and the successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

5.2 Income statement

We have reviewed KBL's income statement for each of FY14, FY15, and FY16 respectively, which are summarised below along with relevant commentary below as indicated by the 'note' column:

KBL - Income statement				
\$'m	Note	FY14	FY15	FY16*
Revenue				
Revenue	a	32.2	26.3	33.9
Other income	b	8.7	0.9	0.0
Total income		40.8	27.2	33.9
Expenses				
Raw materials and consumables used	c	(23.1)	(27.3)	(23.1)
Employee benefits expense	d	(5.3)	(6.0)	(6.6)
Depreciation and amortisation expense		(2.9)	(3.6)	(5.0)
General and administration expense	e	(1.5)	(3.3)	(3.6)
Finance costs	f	(2.9)	(2.6)	(4.5)
Impairment of exploration assets	g	(0.0)	(1.4)	-
Impairment/(reversal) of mining assets	h	6.3	(17.3)	-
Share of joint venture loss		(0.0)	(0.0)	(0.0)
Loss on sale of assets		(0.1)	-	-
Loss from foreign exchange and hedging		(0.9)	-	(1.7)
Total expenses		(30.4)	(61.4)	(44.5)
Profit / (loss) before income tax		10.4	(34.2)	(10.6)
Income tax benefit / (expense)		-	-	-
Net profit / (loss) attributable to members		10.4	(34.2)	(10.6)

Note: * FY16 Financial Accounts have not been audited

Source: FY15 Annual Report; FY16 4E Report (not-audited)

We comment on each of the categories identified in the column titled 'Note' in the income statement below:

- Revenue* is derived from the sale of concentrates and, immaterial interest revenue. MRI Trading AG accounted for 90.7% of concentrate sales in FY15 and 77.4% in FY14. This is a result of the financing offtake agreement between MRI and KBL
- Other income* in FY15 included a gain from foreign exchange and hedging; in FY14 KBL received an \$8.7m government grant which was attributed to other income
- Raw materials and consumables* consists of materials consumed at the Mineral Hill operating site such as processing chemicals and includes freight costs
- Employee benefits expense* includes the fixed salaries of staff at both head office and Mineral Hill site, contributions to employee superannuation plans, and share based payments
- General and administration expense* includes director fees, investor relations and share registry costs, legal fees and other costs. General and administration expenses increased from \$1.5m in FY14 to \$3.3m in FY15 and \$3.6m in FY16. From FY14 to FY15 general and administration expenses increased by \$1.8m. The increase was primarily driven by a \$1.0m increase in legal fees and a \$0.4m increase in investor relations and share registry costs
- Finance costs* primarily relates to interest costs. In FY14 interest costs made up 94% of finance costs; similarly, 91% in FY15
- Impairment of exploration assets* in FY15 totalled \$1.4m which related to the impairment of the Constance Range project to zero as discussed in earlier sections of this report

h) *Impairment / (reversal) of mining assets* at Mineral Hill totalled \$17.3m in FY15. Management identified falling metal prices as well as the commencement of payments in respect of the Quintana Metal Purchase Agreement agreed as the driver of the write-down

Further commentary that relates to the financial history of KBL is discussed throughout section 7 (Investigations).

5.3 Balance sheet

KBL's balance sheet for each of FY14, FY15, and FY16 is summarised below along with relevant commentary as indicated by the 'note' column:

KBL - Balance sheet				
\$'m	Note	FY14	FY15	FY16*
Assets				
Current assets				
Cash and cash equivalents	<i>a</i>	7.3	4.1	0.6
Trade and other receivables	<i>b</i>	1.7	2.1	2.0
Other financial assets		-	0.2	-
Inventories	<i>c</i>	2.8	2.0	0.8
Total current assets		11.8	8.5	3.4
Non-current assets				
Other financial assets	<i>d</i>	1.5	1.5	1.7
Property, plant and equipment	<i>e</i>	10.6	16.0	23.4
Mining property	<i>f</i>	31.1	18.1	27.3
Investment in joint ventures	<i>g</i>	11.8	12.2	12.6
Exploration and evaluation	<i>h</i>	2.4	0.3	1.4
Total non-current assets		57.4	48.1	66.4
Total assets		69.2	56.6	69.8
Liabilities				
Current liabilities				
Trade and other payables	<i>i</i>	5.9	9.8	18.1
Financial liabilities	<i>j</i>	12.1	2.9	5.4
Deferred revenue	<i>k</i>	-	4.0	3.5
Provisions		0.3	0.4	0.5
Convertible notes				10.5
Total current liabilities		18.3	17.1	38.0
Non-current liabilities				
Financial liabilities	<i>j</i>	0.3	1.7	1.8
Deferred revenue	<i>k</i>	-	18.3	24.4
Convertible notes	<i>l</i>	10.3	10.5	-
Provisions		0.9	0.6	0.7
Total non-current liabilities		11.4	31.1	26.9
Total liabilities		29.7	48.3	64.9
Net assets		39.5	8.3	4.9
Equity				
Issued capital	<i>m</i>	67.8	69.9	76.3
Reserves		2.7	3.3	3.6
Accumulated losses		(31.0)	(64.9)	(75.0)
Total equity		39.5	8.3	4.9

Note: FY16 Financial Accounts have not been audited

Source: FY15 Annual Report; FY16 4E Report (not-audited)

We comment on each of the categories identified in the column titled 'Note' in the balance sheet below:

- a) *Cash and cash equivalents* includes cash at bank with St George Bank. Cash and cash equivalents declined by \$7.0m from \$7.3m as at 30 June 2014 to \$0.6m as at 30 June 2016
- b) *Trade and other receivables* includes trade receivables (debts from clients), other receivables, and GST receivables. Trade and other receivables totalled \$1.7m, \$2.1m, and \$2.0m at each of 30 June 2014, 2015, and 2016 respectively. Trade receivables owing from customers relates to the difference between provisional shipment value and final shipment value of concentrate. Final shipment value is a contractual determination by the final weight and assay that are exchanged and agreed between seller and buyer
- c) *Inventories* includes metal concentrates and ore on hand, mining and maintenance stock, and bulk fuel on hand at any point in time. Inventories totalled \$2.8m, \$2.0m, and \$0.8m at each of 30 June 2014, 2015 and 2016 respectively
- d) *Other financial assets (non-current)* relates to a security deposit bank guarantee in favour of the Minister of Mineral Resources for the State of New South Wales in relation to obligations in respect of environmental protection
- e) *Property, plant, and equipment ("PPE")* increased by \$5.4m from \$10.6m at 30 June 2014 to \$16.0m at 30 June 2015 due to the construction and commencement of the CIL plant. As at 30 June 2016, PPE totalled \$23.8m which included the total cost of the completed CIL plant less accumulated depreciation. Additionally, KBL's PPE includes plant and equipment, assets under construction, mining building, mobile plant, and office equipment
- f) *Mining property* totalled \$31.1m, \$18.1m, and \$27.3m as at 30 June 2014, 2015, 2016 respectively. KBL reported a \$13.0m decline in mining property value in the year ended 30 June 2015. Management advised this decline was a result of an impairment being recognised of \$17.3m due to falling metal prices as well as the commencement of payments in respect of the Quintana Metal Purchase Agreement. A summary table of KBL's mining tenement interests can be found at Appendix I
- g) *Investment in joint ventures* represents joint interests of KBL in ventures. Investment totalled \$11.8m, \$12.7m, and \$12.6m at each of 30 June 2014, 2015, 2016 respectively
- h) *Exploration and evaluation* assets totalled \$2.4m, \$0.3m, and \$1.4m at each of 30 June 2014, 2015, 2016 respectively. The balance of this account includes the capitalisation of costs associated with exploration and evaluation of areas of interest for mining. Recoverability of the carrying amount of exploration and evaluation assets is dependent on successful development and commercial exploration or sale of the respective areas of interest. During FY15 following exploration KBL impaired the value of Constance Range to zero
- i) *Trade and other payables* increased by \$12.2m from 30 June 2014 to 30 June 2016. This item relates to amounts owing to creditors in respect of trading expenses
- j) *Financial liabilities* totalled \$4.6m across both current and non-current liabilities in FY15. In FY15 the amount related primarily to amounts due to MRI Trading AG (\$2.6m), an amount due in hire purchase facilities (\$2.0m), and a minor amount due in respect of insurance. In FY14 financial liabilities totalled \$12.4m cross both current and non-current liabilities. In FY14 the amount related primarily to an amount due to Capri Trading Pty Ltd (\$11.5m), hire purchase (\$0.6m), and minor amounts owing in respect of a financial hedge and insurance
- k) *Deferred revenue* represents cash KBL used in financing the business. This financing is in the form of revenue received in advance of production from financiers by way of offtake agreements. In FY15 and FY16 respectively, deferred revenue totalled \$22.2m and \$27.9m. Deferred revenue

recognised on the balance sheet is recognised as revenue on the income statement each period by amortising the deferred revenue liability when metals are delivered to offtake partners.

- l) *Convertible notes* on issue are unsecured, have a 5.5 year term (February 2017) 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 note holder at quarterly conversion points and at certain other times (source: FY15 Annual Report). The account totalled \$10.3m, \$10.5m, and \$10.5m at each of 30 June 2014, 2015, and 2016 respectively, including principal and any accrued interest
- m) *Issued capital* increased by \$8.5m from \$67.8m at 30 June 2014 to \$76.3m at 30 June 2016. The number of shares on issued across the same periods were 393m shares (30 June 2014), 496m (30 June 2015), and 990m (30 June 2016). Boardroom reports provided to us at our appointment showed the following balances in respect of the three forms of capital issued by KBL:

Securities on issue as at 8 September 2016		
Type of security on issue	Number of investors	Number of securities
12% pa Unsec Red Conv Notes Mat 16 February 2017	1,041	28,954,516
Fully Paid Ordinary Shares	6,401	2,658,150,436
Listed Options \$0.005 Expiring 4 August 2018	1,347	1,474,354,120

Source: Boardroom register of securities as at 8 September 2016

Further commentary that relates to the financial history of KBL is discussed throughout section 7, Investigations.

6. Statement by directors

6.1 Report as to affairs

In accordance with the Act, directors are required to submit a Report as to Affairs ("RATA") in relation to the Company, providing details of the business, property, affairs and financial circumstances.

The RATA presents a snapshot of the asset and liability position of the companies on a going concern and forced asset realisation basis, as prepared by the directors.

On 29 September 2016 Greg Starr provided a RATA dated 28 September 2016 to the Administrators ("the 28 September RATA"). An accompanying signatory to the 28 September RATA was received from James Arthur Wall on the same date. Robert Besley was not available at the time to sign the 28 September RATA.

On 15 October 2016, the Directors provided the Administrators with an updated RATA dated 10 October 2016 that was prepared for the Receivers and Managers as part of their statutory requirements ("the 10 October RATA"). The 10 October RATA was signed by all of Gregory Starr, James Wall, and Robert Besley. The Administrators were advised by Gregory Starr that with the benefit of time and return of the CFO subsequent to the appointment of Receivers, the 10 October RATA was more reflective of the state of affairs as at 8 September 2016 (the Administrators' appointment date). The Administrators made enquiry via email on 3 November 2016 with the three directors as to their agreement that the 10 October RATA is a more accurate reflection of the affairs of the Company at the date of appointment of Administrators (8 September 2016); confirmation of that position was received on both 3 November 2016 and 4 November 2016 from James Arthur Wall and Robert Besley respectively.

The table below provides a comparison of book values and estimated realisable amounts as at 8 September 2016, as outlined by the directors in the 10 October RATA:

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	-
Liabilities		
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:

- a) *Interests in land* totals \$23.4m and includes \$22.0m in respect of Mineral Hill and \$1.4m in respect of exploration assets
- b) *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
- c) *Cash at bank* held in cheque and operating accounts at St George totalling \$0.1m
- d) *Stock* totals \$1.0m and includes various trade related stock used in mine operations including valves, pumps, conveyor parts, hosing, and various other items
- e) *Work in progress* relates to the directors' view of gold concentrate in transit at the date of appointment of administrators and totals \$0.6m
- f) *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

6.2 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%

Source: Directors' Report as to Affairs supporting document 'H1.1'

6.3 Unsecured convertible notes per RATA

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

Based on information provided by KBL's registry provider, Boardroom Pty Limited, there were 1,041 noteholders listed as holding unsecured convertible notes issued by KBL at the date of our appointment. 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.

6.4 Reasons for financial difficulties – directors explanation

The following directors were requested to complete questionnaires regarding the financial difficulties of the Company, all of which submitted responses:

- James Wall, Chairman of the Company
- Gregory Starr, Managing Director
- Robert Besley, Non-Executive Director

All three directors listed the following core event as the major causes of failure in varying detail, which is summarised below:

- Severe rain events at Mineral Hill caused MRI to propose to renegotiate their contracted repayment plan, which was historically based on a percentage of production and offtake. On 7 September, due to changes in forecast production as a result of adverse rain events, MRI proposed a new repayment arrangement that would have the effect of receiving and keeping all concentrate revenue associated with the whole of any month's production before determining the amount of any payment they would make to KBL for that month. Under these terms the company would be stripped of any liquidity and therefore could not remain solvent.

6.5 Reasons for financial difficulties – Administrators opinion

We believe the issues relating to the failure of KBL began before the company was placed in Administration and that KBL became increasingly under-capitalised over time. In particular, we consider the following factors contributed to the under capitalisation of KBL:

- Ongoing losses in FY15 and FY16, and reduction in commodity prices;
- The production of low grade concentrate with high arsenic content;
- Increased costs and delays in the construction of the CIL plant;
- Negative operating cash flows since 2014, with the exception of an R+D tax claim;
- Ongoing capital expenditure requirements for mine development and exploration; and
- Onerous financing arrangements which were reflective of their weak balance sheet.

In late 2015 and early 2016, KBL was under capitalised to the point that it was necessary to negotiate extended payment terms with key suppliers, contractors and statutory bodies in order to manage day to day liquidity. Throughout 2016, the company was unable to source a longer term capital solution from financiers or equity markets and, in our preliminary view, may have traded while insolvent from as early as January 2016 onwards.

As noted by the Directors in their RATA, two key events in September 2016 rendered the continuing operations of KBL untenable:

- An inability of KBL to renegotiate a repayment plan with the major offtake party MRI
- Severe rain at Mineral Hill and resulting wall collapse and flooding of the open pit mine

7. Receivers' sale process

7.1 Sale and recapitalisation process

On Wednesday 12 October 2016, the Receivers and Managers advertised for expressions of interest to acquire or recapitalise/restructure KBL and/or its mining assets. The advertisement detailed the assets of the Company including the Mineral Hill Project and Sorby Hills Project. Submissions of offers were requested by 5pm (AWST) 4 November 2016. A copy of the advertisement is included at Appendix E and a summary of the sales process is included below:

Summary of Receivers' sale process	
Campaign step	Interested parties
Flyers distributed	610
Process letter provided	62
Confidentiality agreement returned	39
Information memorandum provided	39
Data room access granted	39
Non binding offers received	12

The Receivers issued 39 information memorandums and provide access to a data room in relation to expressions of interest that included interest in:

- Mineral Hill assets;
- Sorby Hills assets;
- Other mining tenements; and
- A recapitalisation/restructure of part or all of KBL by way of DOCA.

Following a data room process indicative offers were received and nine parties were short listed for site visits and further operational and financial due diligence. Interested parties were requested to submit binding proposals on 7 December 2016 which are discussed below:

7.2 Mineral Hill and other mining tenements

At the conclusion of the sale process, the Receivers and Managers received five non-binding proposals in respect to the Mineral Hill asset, and following further operational due diligence, received two binding proposals.

At the date of writing this report, the Receivers and Managers had selected a preferred party and were negotiating the terms of a sale contract with a view of exercising their power of sale within one to two weeks.

Given the commercial sensitivity of the discussions, the Receivers and Managers did not disclose the sale price being negotiated.

7.3 Sorby Hills

At the conclusion of the sales process, the Receivers received three offers which were capable of being progressed to binding terms. Two of the offers received were for the purchase of KBL's shareholding in Sorby and the third proposal took the form of a Deed of Company Arrangement which is analysed further in Section 12 of this report.

At this stage, the Receivers have not exercised their power of sale over Sorby and have indicated a preference that the Administrators and creditors consider the DOCA proposed, which is principally based on a recapitalisation of KBL centered on the retention of Sorby.

Should the DOCA proposal not be approved by creditors at the second meeting and KBL be placed in Liquidation, it is likely the Receivers will sell the Sorby Hills shares and remit proceeds to the secured creditors (noting MRI's priority to the proceeds over Quintana).

8. Conduct of the Administration

8.1 Tasks undertaken

The Remaining Directors of KBL resolved to appoint the Administrators in the morning of Thursday, 8 September 2016 and the Administrators took possession of the business and assets at that date. Following a period of trading from 8 September 2016 to 18 September 2016, secured creditor Quintana appointed Receivers and Managers on Tuesday, 19 September 2016 who took possession of the business and assets at that date and commenced a sale process.

Pursuant of section 442D of the Act, the Administrators' functions and powers are subject to the power of the Receivers. Given the appointment of Receivers to KBL, and their subsequent control of the business and assets from 19 September 2016, our focus since that date has been directed toward:

- finalising the KBL trading position for the period 8 to 18 September 2016 ("the VA Trading Period");
- communicating with creditors and members;
- completing our statutory investigation into the affairs of KBL in accordance with s439A of the Act; and
- consideration and renegotiation of the DOCA Proposal.

Major tasks attended to during the Administration are outlined below:

Trade on

- Attend head office as well as the Mineral Hill mine site to secure assets
- Managed the sale of gold dore and concentrate during the period 8 to 18 September 2016, prior to the appointment of Receivers and Managers
- Entered into discussions with exiting offtake party, and arranged alternative buyers for gold concentrate
- Arranged for pumping of mine pit following rainfall with a view to recommencing operations
- Worked with employees in regard to the continued operation of the business during the period 8 to 18 September 2016, providing information to the Administrators and requesting creditor details
- Maintained purchase order register for ongoing costs incurred by the Administrators, and subsequently made payment for liabilities incurred during trading period
- Liaised with suppliers regarding liabilities incurred during the period 8 to 18 September 2016 and arranged payment of approved invoices
- Arranged insurances and attended to statutory liabilities

Employees/Creditors

- Prepared and issued six circulars to noteholders, employees, and trade creditors issued on each of 8 September 2016, 12 September 2016, 19 September 2016, 4 October 2016, 24 November 2016, and 13 January 2017

- Attended Head Office and Mineral Hill site to address employees and provide them with information in respect of the administration process, their rights and protection under the government Fair Entitlements Guarantee Scheme (“FEG”)
- Established centralised KPMG communication email for creditors, employees, and noteholders
- Processed a payroll for KBL for the period 8 September 2016 to 13 September 2016
- Maintained a creditor and employees enquiry register
- Notified all landlords and parties with a PPSR registration of the appointment of Administrators
- Called for, receipted, and adjudicated on informal proofs of debt and proxy forms for voting purposes
- Convened and chaired a first meeting of creditors in Sydney and Condoobolin on 20 September 2016
- Prepared slides for the first meeting of creditors and lodged minutes of the meeting with ASIC
- Prepared for and held four teleconference meetings of the Committee of Creditors
- Prepared this section 439A report for creditors and all supporting analysis
- Arranged for meeting facilities for second meeting of creditors.

Investigation

- Held meetings with and considered disclosures made by Mr Gary Starr (MD) and Mr Daryl Midgley (CFO)
- Reviewed RATAs and questionnaires submitted by the three Remaining Directors
- Held discussions with the Receivers in relation to the operations of the company and the marketing programme performed with respect to KBL’s assets
- Held discussions with management, staff, suppliers and other parties
- Reviewed publicly available information including ASIC records and other public databases
- Reviewed books and records located at the head office including accounting information downloaded from the MYOB accounting system
- Considered potential recovery actions in respect of KBL
- Sought and obtained indicative offers from litigation funders in respect of potential claims in a liquidation scenario including preference payments and insolvent trading investigation
- Wrote to and liaised with the KBL Appointing Directors and Resigned Directors in relation to the potential claims against them in respect of KBL’s affairs

Sale of business / assets

- Took possession of company assets at Mineral Hill and head office following appointment
- Arranged insurances for all assets and assessed OH+S and environmental risks
- Maintained expression of interest register during the period 8 to 18 September 2016, prior to the appointment of Receivers and Managers
- Liaised with the Receivers in respect of expression of interest process, and the structure of DOCA proposals received

- Prepared for, sought and obtained three extensions of the convening period from the Court to allow sufficient time for the Receivers and Managers to call for, receipt, and review, expressions of interest in KBL, detailed as follows:
 - from 7 October 2016 to 30 November 2016
 - from 30 November 2016 to 16 January 2017
 - from 16 January 2017 to 27 January 2017
- Held discussions with DOCA proponents for the purposes to understanding the proposal/s and forming a view on our recommendation to creditors for this report
- Reviewed, summarised, and considered sale proposals for the purpose of putting a recommendation to creditors as part of this report
- Negotiated the terms of the DOCA proposal with a view to maximising financial outcomes for creditors

Other

- Reviewed and monitored KPMG KBL email inbox and response to creditors regarding trading and pre-appointment liabilities
- Receipted and actioned director resignations on 17 November 2016 including notification of ASIC and preparation of ASX announcement
- Sought ASX reporting relief for KBL whilst in Voluntary Administration
- Attended to statutory obligations prescribed by the Act

8.2 Receipts and payments and Administrators' statutory lien

Set out below is a summary of receipts and payments in the administration for the period 8 September 2016 to 13 January 2017.

The receipts and payments reflects amounts received or paid by the Administrators in respect of KBL's business trading during the period 8 September 2016 to 18 September 2016 ("the VA Trading Period").

Administrators' Receipts and Payments - 8 September 2016 to 13 January 2017	
\$'000	Total
Receipts	
Cash secured upon appointment	109
Receipt from sales of dore	132
Total Receipts	240
Payments	
Net wages paid	(93)
Contractor fees paid	(7)
Total Payments	(100)
Funds on hand at 13 January 2017	140

Note: This Receipts and Payments excludes certain amounts paid on behalf of the Administrators by the Receivers and Managers in accordance with the Administrators' priority under s556 of the Act

In addition to the above outlined payments, the Administrators had incurred certain further liabilities during the trade-on of KBL prior to the appointment on Receivers and Managers on 19 September 2016. Pursuant to s443D, s443E, and s556 of the Act, the Administrators asserted their statutory right of indemnity out of circulating assets realised by the Receivers.

To that effect, a number of payments have been made by the Receivers and Managers on behalf of the Administrators, which are not reflected in the Administrators' receipts and payments above, but rather have been offset against the value of the Administrators' statutory lien.

Those payments are detailed below, along with a number of costs yet to be settled as at reporting date, and detail of our remuneration and legal fees for the same period:

VA Trading Period (8 September 2016 to 18 September 2016) costs and remuneration

\$'000 excl. GST	Paid by Receivers	Unpaid at reporting date	Total
<i>VA Trading Period costs</i>			
Purchase orders	45	-	45
Salaries and wages	63	-	63
Payroll on costs	84	-	84
Leasing costs	22	-	22
Electricity	18	-	18
Insurance	10	-	10
Consumables subject to ROT	-	63	63
Quintana stream	-	25	25
Other accrued expenses	53	53	105
Total VA Trading Period costs	296	141	437
<i>VA Trading Period remuneration and costs</i>			
Remuneration for the period 8 to 18 September 2016 approved by CoC	-	288	288
Legal fees for the period 8 to 18 September 2016	25	-	25
Total VA Trading Period remuneration	25	288	313
Total VA Trading Period remuneration and costs	321	429	750

Source: KPMG ref 27879975_18_Updated SOP

9. Statutory investigations

9.1 Scope

Pursuant to section 438A of the Act, the Administrators are required to conduct investigations into KBL's business, property, affairs and financial circumstances. The Administrators are required to form an opinion about whether it would be in the interests of the creditors of KBL to execute a DOCA, for the administration to end, or for KBL to be wound up. Given the comparison required with a winding up, the Administrators investigations include the consideration of whether there are any potential actions available to a liquidator in the event that creditors resolve to place the Company into liquidation.

We are required to report to ASIC if we consider that past or present officers or shareholders of KBL may have committed an offence under the Act. Reports to ASIC are confidential and we are unable to disclose details to creditors.

The short time frame associated with the Administration process limits the extent of investigations that that can be performed prior to the second meeting. We have not completed a full investigation of the kind that we would perform should KBL be placed into liquidation. The investigations performed to date are therefore only indicative of the actions that may be possible in the event of liquidation. We are, however, confident that the investigations are sufficiently progressed and documented within this report to allow creditors to make an informed decision as to the future of the company.

Should creditors consider they have further information that may be useful in our inquiries, please do not hesitate to contact this office.

In considering the merits of proceeding with any recovery action, a liquidator must have regard to the relative costs and benefits together with the prospects of success and the financial ability of defendants to meet claims. Recovery actions are often expensive and can involve lengthy delays if court proceedings are required.

9.2 Information reviewed

The investigations performed by the Administrators were predominantly based on the following sources of information:

- Meetings with and considering disclosures made by Mr Gary Starr (MD) and Mr Daryl Midgley (CFO);
- Review of RATAs and questionnaires from the Directors;
- Discussions with the Receivers in relation to the operations of the company and the marketing programme performed with respect to KBL's assets;
- Discussions with management, staff, suppliers and other parties;
- Publicly available information including ASIC and ASX records and other public databases; and
- Books and records located at the head office including accounting information downloaded from the MYOB accounting system.

9.3 Recovery actions available to a Liquidator

Should KBL proceed into liquidation at the Second Meeting, Part 5.7B of the Act would apply to the winding up. This part of the Act sets out a number of circumstances and conditions under which the liquidator of a company may seek to recover monies from various parties for the benefit of the entire body of creditors ("Liquidator Actions").

Relevantly, such claims can only be brought by a liquidator and, as such, if creditors of the Company resolve that the Company execute a DOCA, no liquidator will be appointed and the actions detailed in Part 5.7B of the Act will not be available for the benefit of creditors.

Liquidator Actions fall into the following broad categories:

- Insolvent trading (refer Section 9.4)
- Voidable transactions (refer Section 9.5):
 - Uncommercial transactions
 - Unfair preferences
 - Unfair loans
 - Unreasonable director-related transactions
 - Transactions to defeat creditors
 - Voidable circulating interests

In addition, any actions available to the Company may also be pursued by a Liquidator with the benefits flowing directly to unsecured creditors. These actions are not exclusively available to a liquidator, although in this case it is unlikely that a Deed Administrator would be in a position to pursue such actions on behalf of the Company if the Company executes a DOCA (subject to the specific terms of the DOCA executed). Claims of this nature relate to offences and directors' duties, and typically include:

- Breaches of directors' duties; and
- Misleading and deceptive conduct.

Further discussion in relation to the above matters is set out in Section 9.6 of this report.

In the majority of circumstances, it may be necessary for the Liquidator to commence formal legal proceedings to pursue any matters identified that fall within the above categories.

There a number of inherent risks in pursuing legal proceedings and as such any recovery in respect of legal proceedings is highly dependent on:

- Further investigations to establish the precise facts of each claim;
- Obtaining an independent legal opinion that supports the strength (or otherwise) of each claim being pursued;
- The Liquidator having suitable funding in place to meet costs of conducting detailed investigations, obtaining a legal opinion and prosecuting the claim;
- The nature of any potential defences (statutory or otherwise) that may be relied upon by the defendant of each claim;
- The claim succeeding at trial or otherwise being settled on suitable terms;
- The financial capacity of defendants to meet any eventual judgement awarded in favour of the liquidator or company; and

- In relation to insolvent transactions, proving the insolvency of the Company when the transaction in question occurred.

A summary of the potential actions that may be pursued by a Liquidator (should the Company enter liquidation) together with the Administrators' preliminary assessment as to whether further investigations into these areas is warranted is set out below:

KBL Mining Limited - potential recovery actions		
Section of the Act	Potential recovery action	Further investigations warranted
Liquidator actions		
588G, M	Insolvent trading	✓
588FA	Unfair preferences	✓
588FB	Uncommercial transactions	✓
588FD	Unfair loans to a company	✗
588FDA	Unreasonable director-related transactions	✓
588FE(5)	Transactions to defeat creditors	✗
588FJ	Voidable circulating interests	✗
Part 5.8A	Arrangements to avoid employee entitlements	✗
Potential director offences		
180-184	Breaches of general directors' duties	✗
191	Breach of duty to disclose material personal interest	✗
286	Failure to keep proper accounting records	✗
292/319	Failure to lodge annual reports with ASIC	✗
314	Failure to comply with requirements for financial statement preparation	✗
438B	Failure to assist Administrators, deliver books and provide information	✗
674	Requirement for listed company to comply with disclosure requirements	✗
1307	Concealing, destroying, mutilating or falsifying books and records	✗
1308	Making a statement which is knowingly false or misleading in a material particular	✗
1309	Making, furnishing, authorising or permitting any false or misleading statement or report to directors, auditors or members	✗

Source: KPMG Investigations

9.4 Insolvent trading

Preliminary assessment

Pursuant to section 588G of the Act, a director may be found by a relevant court, to be personally liable to the company if the director fails to prevent a company from incurring a debt when, at the time of incurring that debt, the company is insolvent, or becomes insolvent by incurring the debt, and there existed reasonable grounds to suspect that the company was or would become insolvent.

With the exception of unfair loans, in order for a Liquidator to be able to set aside a transaction or obtain compensation from a director for insolvent trading, the Liquidator must first be able to show that at a relevant point in time the Company was insolvent.

The determination of a company's solvency is a complex matter which is determined as a matter of commercial reality in light of all relevant facts.

The definition of solvency under section 9 of the Act states a company is considered to be solvent if, and only if, the company is able to pay its debts as and when they become due and payable. A company that is not solvent is insolvent. There are two key tests in determining a company's solvency, being:

- Balance sheet test
- Cash flow test

Creditors should be aware that a successful claim for insolvent trading requires extensive analysis and generally requires legal action.

In order to reach a preliminary conclusion concerning the likely date of the Company's insolvency, a range of factors/indicators may be considered, those factors/indicators are discussed in the following sections.

Determining insolvency

The case of ASIC v Plymin (2003) 46 ACSR 126 is often referenced in considering the time a person/business becomes insolvent. The case contains a list of 14 common indicators of insolvency, which have been adopted to determine the solvency of KBL.

Our preliminary view is that KBL may have been insolvent from as early as January 2016. The following table provides a high level view of how that determination has been made, further commentary is provided in the following sections as indicated in the table:

KBL Mining Limited - indicators of Insolvency																
Indicator	2016									2015						
	Sept	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sept	Aug	Jul	Jun
Continuing losses	✓	✓	✗	✓	✗	✓	✗	✗	✓	✓	✓	✗	✓	✓	✓	✓
Liquidity ratio below 1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗
Overdue taxes	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗
Inability to borrow	✓	✓	✓	✓	✓	✓	✓	✓	?	?	?	?	✗	✗	✗	✗
No alternative finance	✓	✓	✓	✓	?	?	?	?	?	?	?	✗	✗	✗	✗	✗
Inability to raise capital	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Suppliers placed on COD	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗
Creditors outside terms	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗
Issuing post-dated cheques	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Dishonoured cheques	✓	✗	✗	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗
Special creditor arrangements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗
Demands, writs, judgements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗
Round-sum payments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗
Inability to produce information	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗

Legend:

Indicator	✓	Preliminary assessment of insolvent period
Requires further investigation	?	
Not an indicator	✗	

Source: KPMG Investigations ref 27901795_4

A liquidator, if appointed, would need to conduct further investigations to determine whether or not KBL became insolvent at January 2016 or an alternate date.

The above indicators are discussed in further detail below, in the same order.

Continuing losses

A series of trading losses may cause or indicate a decline in working capital resources available to the business. Trading losses may however, be absorbed by borrowings, alternative finance or capital injection/raising.

Recent trading losses are primarily attributed to:

- Poor weather conditions impacting mining operations
- Poor grading of KBL's gold concentrate
- Over-budgeted expenditure attributed to the CIL plant development
- Delays in commencement of the CIL plant

KBL incurred a \$12.5m trading loss over the period 1 July 2015 to appointment, including a \$2.3m trading loss since 1 January 2016 (preliminary determination of insolvency period).

A summary of the trading losses incurred by KBL, by month, is set out below:

KBL Continuing losses															
	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15	Jun-15
Income	309	2,361	1,888	4,423	1,449	5,149	5,481	1,644	4,730	2,268	2,878	(121)	2,674	1,418	4,353
Expenses	(2,211)	(2,351)	(4,404)	(3,374)	(2,078)	(4,428)	(2,777)	(3,397)	(6,258)	(3,579)	(2,637)	(4,188)	(3,663)	(3,691)	(7,650)
Net profit/(loss)	(1,903)	10	(2,516)	1,049	(629)	720	2,704	(1,753)	(1,528)	(1,312)	241	(4,310)	(989)	(2,274)	(3,297)

Source: KPMG Investigations

Liquidity ratio below 1

A business' liquidity ratio compares its current assets to its current liabilities, designed to examine a company's ability to access funds in the immediate short term from "liquid" assets to pay liabilities as they become due and payable.

We note that some current assets and liabilities included in this analysis are more liquid than others, including the rate at which receivables or stock may be recovered, or whether some current liabilities are in fact due and payable at a particular point in time.

KBL has not maintained a liquidity ratio above 1 since July 2015, primarily driven by the increasing trade creditor balances since late-2015 and slow production of inventory, due to poor weather, delays in production and the commencement of the CIL plant.

A summary of KBL's liquidity position, by month, is set out below:

KBL Liquidity position															
\$'000	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16	Dec-15	Nov-15	Oct-15	Sep-15	Aug-15	Jul-15	Jun-15
Liquid assets	16,908	16,934	17,295	19,588	19,345	21,064	22,198	18,848	20,455	17,164	15,907	18,279	18,636	21,464	20,728
Liquid liabilities	35,387	36,929	37,715	27,053	27,128	28,322	32,197	31,170	30,690	27,581	22,278	21,940	19,133	17,431	15,862
Liquidity ratio	0.48	0.46	0.46	0.72	0.71	0.74	0.69	0.60	0.67	0.62	0.71	0.83	0.97	1.23	1.31

Source: KPMG Investigations

Overdue Commonwealth and state taxes

Late or non-payments and/or lodgements of statutory tax returns is a strong indicator of financial distress in a business.

We are advised by management that the Company entered an arrangement with the Australian Taxation Office in April 2016 for an outstanding balance of c.\$1.0m, comprising a balance of unpaid PAYG and GST since October 2015. We're advised by KBL that the agreement was to decrease this balance by offsetting credits going forward until fully satisfied and that this arrangement finished in August 2016.

We confirm that the Company entered into a formal payment arrangement with the ATO on 7 May 2016 for an outstanding balance of c.\$1.0m, with repayment terms set as follows:

- 23 May 2016: \$350,000
- 23 June 2016: \$350,000
- 23 July 2016: \$313,918

We confirm that the first two payment obligations were not met, however the outstanding balance was decreased by offsetting GST and FBT credits accrued during that period.

The Company agreed to a revised repayment arrangement for the third repayment on 26 July 2016, providing the Company up to 26 August 2016 to repay an outstanding balance of \$319k.

We confirm that this payment obligation was also not met, however the outstanding balance was decreased by offsetting GST and FBT credits accrued during that period.

The above arrangements may qualify as a "preference payment" under sections 588FA and 553C of the Act. A liquidator would investigate this arrangement in further detail and seek the appropriate legal advice.

Poor relationship with a financier or the inability to borrow

A company's financier has greater visibility over the company's financial health in comparison to the general body of unsecured creditors, by virtue that the financier benefits from the supply of company financial information to justify balance sheet health and financial viability.

A poor relationship with a financier may be driven by:

- Late or absence of repayments on facilities
- Overdrawn or breach of facilities
- Breach of covenants or financial ratios
- Breach of other conditions, including information supply as required
- Change in management of the business

A poor relationship with a financier is not necessarily a firm indicator of the company's insolvency; however, a poor relationship may lead to the inability to renew, extend, increase or restructure facilities.

A summary of the major facilities KBL had with financiers/banks is set out at section 3.5 of this report.

In FY15:

- KBL financier Capri refinanced a \$12.6m loan out to KBL to Kidman Resources ("Kidman") and Kidman brought litigation against KBL in respect of alleged event of default
- KBL sought and obtained an extension of the maturity date of KBLGA convertible notes in return for increase in interest rate, which was ultimately approved bringing the maturity from August 2016 to February 2017

In FY16:

- In March 2016, KBL agreed to a restructure of its trading agreement, or "Advance Payment Agreement" with MRI Trading AG, causing a restructure of the repayment terms and interest due to MRI. The revised arrangement would provide that the outstanding principal advanced by MRI to KBL of \$6.0m be repaid over an eight month period ending September 2016.

A liquidator, if appointed, would need to conduct further investigations to determine whether, and to what extent, covenants of these arrangements were breached.

No alternative finance available

A company may be able to access alternative forms of finance in the need of generating capital immediately. Examples of alternative finance include:

- the conversion of short-term debt to long-term debt
- borrowing funds to pay existing debt
- adjusting payment terms with suppliers and customers

KBL sought alternative capital solutions during the course of 2016 to raise additional funds to increase working capital. Initiatives included presenting/promoting at conferences (ie Mines and Money, Diggers and Dealers) and negotiating with convertible noteholders and major shareholders.

There are indications in the board meeting packs during 2016, particularly from June 2016 (including an announcement on 14 June 2016), which indicate that there had been little success in obtaining alternative finance, and aside from some equity/convertible note raisings, there are no other viable alternatives.

In FY15:

- KBL sought and obtained an extension of the maturity date of KBLGA convertible notes in return for increase in interest rate, which was ultimately approved bringing the maturity from August 2016 to February 2017

In FY16:

- In February 2016, KBL arranged a restructure of certain supplier creditor debts totalling c.\$17.0m as at 31 December 2015 in the form of a debt for equity swap, interest accrual in respect of part of the amount owing, and an agreement to repay remaining amounts outstanding by October 2016
- In March 2016, KBL agreed to a restructure of its trading agreement, or "Advance Payment Agreement" with MRI Trading AG, causing a restructure of the repayment terms and interest due

to MRI. The revised arrangement would provide that the outstanding principal advanced by MRI to KBL of \$6.0m be repaid over an eight month period ending September 2016

A liquidator, if appointed, would need to conduct further investigations to determine the impact of this indicator on KBL's solvency.

Inability to raise capital

Companies, particularly those listed on a public exchange, may have the ability to raise further equity through the issuance or conversion of equity instruments. Whilst an equity holder in a business expects to receive a return on their investment, their claim to their equity contribution outstanding in an insolvency is subordinated after unsecured creditors.

KBL successfully raised capital up to the appointment of voluntary administrators.

The last raising occurred in June 2016, being a staggered private placement of 165 million shares to sophisticated investors.

A liquidator, if appointed, would need to conduct further investigations to determine the impact of this indicator on KBL's solvency.

Suppliers placing the debtor on COD terms

As a consequence of late or non-payment for suppliers, a supplier may place the debtor of 'cash on delivery' terms, or ceasing supply altogether. Existence of COD terms are an indicator that a company may be experiencing cash flow stress.

We're advised by KBL management that a number of suppliers placed KBL on COD terms when agreeing to payment plans from as early as February 2016, with a view to returning to normal terms once these agreements were complete.

Creditors unpaid outside trading terms

One of the strongest indicators of cash flow stress is creditors increasingly being paid late, invoices not paid within trading terms, or at all (where not disputed).

The balance of trade payables outside of trading terms exceeded 50% (in value) from as early as December 2015, reaching as high as 83% (\$6.8m) outside terms as at the appointment of administrators.

Issuing post-dated cheques

Whilst more uncommon than other indicators, issuance of post-dated cheques is a clear indicator of insolvency as it serves as admission by the payer that they have insufficient funds to pay an amount at that point in time.

We did not discover any instances of KBL issuing post-dated cheques.

Dishonoured cheques or payments

A cheque or payment is generally dishonoured due to insufficient funds being present in the account.

We discovered some instances of distribution cheques and some payments to creditors being dishonoured due to insufficient funds. Most of these payments/cheques were re-issued in the following days on receipt of debtor funds.

Entering into special arrangements with creditors

Where a company is unable to pay its debt to a creditor in full, they may agree with the creditor to enter into a repayment arrangement to meet arrears. Whilst entering into the arrangement is a strong indicator of stress, the arrangement itself may cause the company to 'return to solvency' as a result of the agreement, as the debt is no longer due and payable in full at that point in time.

KBL entered into a number of formal and informal repayment arrangements with creditors during 2016, including entering into arrangements with four key suppliers in February 2016, as announced to the market on 22 February 2016, for debts of over \$17m plus interest.

Whilst KBL successfully negotiated repayment arrangements with a number of its creditors, these arrangements did not appear to return the Company to solvency and there is evidence that some of those arrangements were breached (either by late or non-payments). These breaches of repayment arrangements is a strong indicator of insolvency.

A liquidator, if appointed, would need to conduct further investigations to determine the number, value and timing of these repayment arrangements, including whether KBL complied with the agreed terms.

Examples of letters of demand, writs, judgements filed against the company

Growing creditor pressure (from multiple creditors) in the form of letters of payment follow up, demand and instances of filings of writs, summons, judgements and winding up applications against a company is generally a strong indicator of insolvency.

The earliest examples of creditor pressure may be summarised as follows:

- Payment follow ups – earliest indicator identified at January 2016
- Letters of demand issued to the Company – earliest indicator identified at April 2016
- Public filings (i.e. statutory demands) – earliest indicator identified at July 2016
- Winding up applications filed – no indicators identified

A liquidator, if appointed, would need to conduct further investigations to determine whether there were any earlier examples of creditor pressure, in all forms.

Round sum payments

Companies who are experiencing working capital stress may reduce creditor debts with round payments and are often not necessarily associated with satisfying particular invoices.

We identified up to \$971k in round payments made during the relation-back period (commencing February 2016), and examples of round payments made as early as January 2016.

A liquidator, if appointed, would need to conduct further investigations to determine whether these 'round sum' payments were in fact preferential and/or were a true indicator of KBL's insolvency.

Inability to produce timely and accurate financial information

Sections 286 and 588E of the Act set out the requirement for a company to maintain adequate books and records and that a company may be presumed to be insolvent due to not keeping proper books.

Section 588E(4) states that "*subject to subsections (5) to (7), if it proved that the company:*

- a) has failed to keep financial records in relation to a period as required by subsection 286(1), or
- b) has failed to retain financial records in relation to a period for the 7 years required by subsection 286(2), then

the company is to be presumed insolvent throughout the period."

Based on our preliminary investigations, we have been provided with adequate books and records in accordance with our requests.

Defences in respect of insolvent trading claims by a liquidator

Pursuant to s588H of the Act, directors have a number of defences potentially available to them in relation to an insolvent trading claim. To defend a claim for insolvent trading a director must prove one of the following:

- At the time the debt was incurred the director had reasonable grounds to expect and did expect that the Company was solvent and would remain solvent if it incurred that debt and any other debts that it had incurred at that time
- At the time the debt was incurred the director had reasonable grounds to believe and did believe that a competent and reliable person was responsible for providing information about the Company's solvency and that person was fulfilling that responsibility
- The director through illness or some other good reason was not taking part in the management of the company at the time the debt was incurred
- The director took all reasonable steps to prevent the company from incurring the debt

Conclusion regarding 14 indicators of insolvency

From evidence gathered during our preliminary investigations (including but not limited to the 14 indicators of insolvency analysed above, board minutes, email correspondence and copies of draft and actual agreements), it is the Administrators' view that KBL was potentially insolvent from at least January 2016.

The major factors contributing to this preliminary view are that:

- The majority of creditors (in number and value) fell outside of payment terms;
- There was insufficient funding/raising to return the Company to solvency;
- Payment arrangements were agreed with a number of creditors and then breached; and
- The Company's working capital was increasingly less liquid.

We estimate that the quantum of a potential insolvent trading claim against the Directors, should it be determined that the Company was insolvent from January 2016, would be approximately \$11.4m. The quantum comprises all debt incurred since the time the Company was considered insolvent, including debt incurred with trade suppliers, noteholders, secured creditors and employees, which has not been satisfied.

We understand the Directors had taken out a Directors and Officeholders insurance policy, which would commonly insure officeholders for claims of this nature. A Liquidator would investigate the terms of this policy and the ability to claim against it.

Notwithstanding, a Liquidator, if appointed, would need to conduct further investigations to reach a determination as to the exact date of insolvency, and accordingly, the quantum of any potential claim in connection thereto, and any potential defences that may be available to them.

Directors' personal financial position

We have not yet requested the directors' to provide us with their respective personal financial positions for the purposes of this report.

A liquidator, if appointed, may request for the directors' to provide a statement of the personal financial position whilst making an insolvent trading claim, if any.

9.5 Voidable transactions

A liquidator has the ability to apply to the Court for an order to void certain transactions should they be detrimental to the company and/or its creditors under the provisions of the Act.

We set out below, based on our initial review of KBL’s books and records, our preliminary views as to whether there are any transactions that may be considered voidable, subject to the further review of a liquidator, if appointed.

Unfair preferences

Section 588FA of the Act states that a transaction is an unfair preference given to a creditor of a company, if, and only if:

- a) The company and the creditor are parties to the transaction (even if someone else is also party to the transaction), and
- b) The transaction results in the creditor receiving from the company, in respect of an unsecured debt that the company owed to the creditor, more than the creditor would receive from the company in respect of the debt if the transaction were set aside and the creditor were to prove for the debt in a winding up of the company,

even if the transaction is entered into, is given effect to, or is required to be given effect to, because of an order of an Australian Court of direction by an agency.

The provisions of the Act provide that an unfair preference is void against a Liquidator if:

- It is an insolvent transaction (ie the company was or becomes insolvent at the time it was entered into), and
- If the other party to the transaction is a non-related entity, the transaction occurred in the six months ended on the ‘relation-back’ day, being 8 September 2016, or
- If the other party to the transaction is a related entity, the transaction occurred in the four years ended on the ‘relation-back’ day, being 8 September 2016.

In order to prove a creditor received an unfair preference payment, the Liquidator must first show that the Company was insolvent at the time of the payment.

A creditor has a defence to an unfair preference claim by a Liquidator if it proves that it entered into the transaction in good faith and, at the time the benefit was received, the creditor had no reasonable grounds for suspecting that the company was insolvent or would become insolvent through entering into the transaction and valuable consideration was given, nor would a reasonable person in the creditor’s position have suspected that the company was insolvent or would become insolvent.

We consider that there may be up to \$6.4m of payments made by KBL potentially being preferential in nature and occurring during the relation-back period, summarised below:

KBL Mining – potential preference payments	
\$'000	Value (\$'000)
Payment recipient	
Australian Taxation Office	1,014
Payment arrangement (unconfirmed)	4,422
Round payments	971
Total potential preference payments	6,407

Source: KPMG Investigations

Australian Taxation Office

As referred to within section 9.4 in sub-section titled 'Overdue Commonwealth and State taxes', the arrangements with the ATO may possibly be defined as a "preference payment" based on the 'running balance account' argument.

Payment arrangements (unconfirmed)

This category of payments listed in the above table include any payment plans agreed verbally and/or in writing with creditors/suppliers between January 2016 and appointment (as listed in the accounts of KBL).

Round payments

Round payments include any payments made by KBL and are 'round' in nature and may not have been paid in accordance with any specific invoices or otherwise.

Due to the preliminary nature of our investigations performed pursuant to section 438A of the Act, we have not inspected or traced all payment plans for accuracy or completeness.

Notwithstanding, further investigation would be required to be undertaken by a Liquidator (if appointed) to confirm this position with certainty.

Uncommercial transactions

A transaction of a company is an uncommercial transaction if the following elements are established by a Liquidator:

- The transaction was entered into or given effect to within two (2) years of the date of appointment of the Administrator, and
- At the time the transaction was entered into, or when given effect to, the company was insolvent or became insolvent as a result of the transaction, and
- A reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefits and detriments to the company in entering into the transaction and the respective benefits to other parties.

The defences available to a party involved in an uncommercial transaction claim are, in effect, the same as those for an unfair preference.

Our investigations have not revealed any potential uncommercial transactions.

Unfair loans to a company

An unfair loan is a loan made by a creditor to the company where, upon analysis, the interest or charges with respect to the loan are extortionate. Unfair loans made to the company any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator, whether or not the company was insolvent at any time after the loan was entered into.

Our investigations have not revealed any potential unfair loans.

Unreasonable director-related transactions

Pursuant to Section 588FDA of the Act, a transaction is an unreasonable director-related transaction if there is a payment by the Company to a director or close associate of the director, where a reasonable person in the company's circumstances would not make the payment.

Our investigations have not revealed any potential unreasonable director-related transactions during the period in which we've preliminarily determined that the Company was potentially insolvent.

Transactions to defeat creditors

Section 588FE of the Act provides that a transaction will be voidable if the transaction was designed to defeat, delay or interfere with the rights of creditors.

Our investigations have not uncovered any such transactions.

Voidable circulating interests

There are no charges against the Company that appear voidable under section 588FJ of the Act.

9.6 Offences and director duties

In addition to potential actions available to a liquidator, there are a range of offences under the Act that apply to the conduct of officers of the Company. Section 438D of the Act requires an Administrator to report to ASIC if it appears that:

- A past or present officer, or member, of the Company may have been guilty of an offence in relation to the Company, or
- A person who has taken part in the formation, promotion, administration, management or winding up of the Company may have misapplied or retained, money or property of the Company or may have been guilty of negligence, default, breach of duty or trust in relation to the Company

Based on our investigations, we have not identified any breaches by any of the abovementioned persons of their statutory or fiduciary obligations in relation to the Company. Accordingly, we have not reported to the ASIC under s438D of the Act.

Breaches of general directors' duties

Pursuant to sections 180 to 184 of the Act, the duty to act in good faith includes:

- To act honestly
- To exercise powers in the interests of the Company
- To avoid conflicts of interest
- To use their position properly, and
- To use information only for its proper use

From our investigations to date, aside from a potential insolvent trading claim, we have not found any evidence that the directors have breached their duty to act with care and due diligence and to act in good faith, nor have they used their position or information improperly, however our investigations in this regard are ongoing.

Breach of duty to disclose material personal interest

From our investigations to date, we have not found any evidence that the directors have breached their duty to disclose material personal interests pursuant to s191 of the Act.

Failure to keep proper accounting records

Pursuant to s286 (1) and (2) of the Act, a company is required to keep written financial records for a period of 7 years that correctly record and explain its transactions, and financial position and performance and would enable true and fair financial statements to be prepared and audited.

In some circumstances, the failure to maintain adequate books and records in accordance with the Act may be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Division 2 of Part 5.7B of the Act. In particular, under s588E(4) of the Act, if a liquidator can establish that the company has failed to keep financial records as required under s286(1) or (2) of the Act in relation to a period of time, the company is determined to have been insolvent throughout the period.

KBL records reviewed by the Administrators included:

- MYOB electronic general ledgers for the previous 3 years from July 2013 to September 2016
- Management accounts from 2013, including profit and loss statements, balance sheets and cash flow statements
- Bank statements, credit card statements and bank reconciliations
- Company register
- Business Activity Statements and ATO correspondence
- Audited financial statements covering the periods for FY13, FY14 and FY15
- Draft audited financial statements for the period of FY16

Due to time constraints we have not attempted to review in any detail, information relating to the period beyond the last 3 years however the information we have reviewed leads us to reach a preliminary conclusion that records are likely to have been maintained in compliance with the requirements of s286 (1) and (2) of the Act.

Failure to lodge annual reports with ASIC

The Company did not lodge its full year accounts for the year ended 30 June 2016 with ASIC under s319 of the Act due to the appointment of administrators.

As noted earlier, the Company has automatic financial reporting relief pursuant to section 8 of the ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251 for a period of six months from the date of appointment.

KBL's directors did not breach either s319 or s320 of the Act within the last three years.

Failure to comply with requirements for financial statement preparation

We are not aware of any instances where KBL's directors had not complied with s314 of the Act regarding the preparation of financial statements for members.

Please refer, however, to Section 9.7 of this report in relation to the basis of preparation of the financial statements for the half year ended 31 December 2015 and specifically, the 'going concern' assumption.

Failure to assist Administrators, deliver books and provide information

The directors and employees of KBL complied with section 438D of the Act with respect to the assistance, delivery of books and provision of information to the Administrators as and when required.

Insolvent trading

Refer to section 9.4 of this report.

Arrangements to avoid employee entitlements

Part 5.8A of the Act contains provisions designed to protect the entitlements of employees from agreements by the Company that deliberately defeat the recovery of those entitlements in the event of the company's insolvency.

Based on our investigations to date, there has not been a contravention of Part 5.8A in relation to employee entitlements. Employee entitlements outstanding at the date of our appointment relate only to the period immediately prior to our appointment, excluding severance entitlements.

Requirement for listed company to comply with disclosure requirements

Our preliminary view is that the Directors may not have disclosed its solvency position as early as they are reasonably expected to, however our investigation with disclosure requirements pursuant to section 674 of the Act is ongoing.

Concealing, destroying, mutilating or falsifying books and records

We are not aware of any instances where KBL's directors had breached section 1307 of the Act, in relation to concealing, destroying, mutilating or falsifying books and records of the company.

Making false or misleading statements in a material particular

We are not aware of any instances where KBL's directors had breached section 1308 of the Act, in relation to making a statement which is knowingly false or misleading in a material particular.

Making or authorising false or misleading statements, reports to directors, auditors or members

We are not aware of any instances where KBL's directors had breached section 1309 of the Act, in relation to making, furnishing, authorising or permitting any false or misleading statement or report to directors, auditors or members.

9.7 Other investigations

Outside of the ordinary investigation scope above, the Administrators' preliminary investigations into the Company's affairs raised the matter of the qualified opinion provided by KBL's auditors, BDO, with respect to KBL's going concern assumption for the half year ended 31 December 2015.

Going concern assumption in KBL's financial statements for the half year ended 31 December 2015

Whilst our preliminary view is that the date of insolvency was around January 2016, it is noteworthy that KBL's auditors, BDO, qualified their review of the half-year financial statements for the period ended 31 December 2015 with an 'emphasis of matter' paragraph. The 'emphasis of matter' paragraph highlights that KBL's ability to continue as a going concern was dependent on certain events occurring and favourable to the Company.

The directors' note supporting the 'going concern' assumption included the following events having occurred after the review period, but before publication of the financial statements:

- Revised payment arrangements had been entered into with four of KBL's largest service providers
- These providers were owed some \$17m plus interest
- Under the arrangements, those creditors would be entitled to interest, some of which would be converted/paid through an issue of shares

The 'going concern' assumption included the following events yet to occur, but assumed would occur and be favourable to the Company:

- Management negotiating and agreeing repayment terms with other suppliers, "that tie in with the company's projected cash flows"
- Management agreeing to short term finance through either a convertible note or loan
- Management have prepared the cash flow forecast based on:
 - those repayment arrangements being agreed, and
 - raising additional short-term finance, and
 - the effect of the regeneration kiln (which had only commenced operating after the review period)
 - installation of the new filter (due to be commissioned in mid-March 2016)
 - "an equity raise later in the year"

The directors' noted that "these conditions indicate the existence of a material uncertainty that may cast significant doubt over the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

BDO concluded its review (which is notably not an audit) of the financial statements of KBL for the half year ended 31 December 2015 that there were no matters that were not in accordance with the Act.

BDO, however, provided the following 'emphasis of matter' paragraph in its conclusion:

"Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful deferment and renegotiation of payment terms with creditors, conversion of creditors to equity, successful commissioning of processing plant, raising of necessary funding through debt and equity and the successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

Subject to the further review of the date of insolvency by a liquidator, if appointed, BDO's opinion and the basis of preparation of the financial statements for the period ended 31 December 2015 may be subject to closer investigation in a liquidation scenario.

Correspondence with directors

On 8 December 2016, the Administrators wrote to the Remaining Directors and Resigned Directors (together referred to as "the Directors"), and secured creditor Quintana, to inform them that our preliminary investigations during the administration indicate that there may be causes of action against them if the Company proceeds to liquidation.

In response to that letter, we received correspondence from the Directors' legal advisors ("the Directors' Letter") which put forward that KBL was not insolvent prior to the appointment of administrators and the Directors discharged their duties appropriately at all times. The substantive reasoning provided for this by the Directors is set out below:

- Prior to 8 September 2016, KBL was able to pay its debts as and when they became payable, although experienced periods of temporary illiquidity
- KBL maintained the support of its creditors at all times until September 2016
- KBL converted portions of debt to equity and successfully raised capital during 2016
- KBL was advised by lawyers and other experts throughout the period
- The letter from the Directors also raised the difficulties in prosecuting a claim of insolvent trading against the directors

The position put forward by the Directors is contrary to my preliminary findings, however I remain of the view that KBL likely became insolvent in January 2016. Nevertheless, the Directors' Letter correctly raised the difficulties involved in prosecuting an insolvent trading claim and indicates their intention to take necessary legal steps to defend their position in the event a Liquidator is appointed to KBL.

I attach both letters from the Directors in Appendix J.

10. Effect of Liquidation on classes of creditors

Employees

Where a staff member's employment has been terminated as a consequence of an insolvency their employee entitlements are afforded a statutory priority under the Act out of any available funds realised from circulating assets. These include any outstanding wages, pay in lieu of notice, superannuation, annual leave, long service leave and redundancy. There are certain caps in relation to 'excluded employees', including directors.

Fair Entitlements Guarantee Scheme ("FEG") only available to redundant employees of companies in Liquidation

As from 5 December 2012 the FEG scheme replaced the former General Employee Entitlements and Redundancy Scheme ("GEERS"), meeting certain entitlements of eligible employees of companies in liquidation.

The FEG payment scheme

FEG is a basic payment scheme, established under the Fair Entitlements Guarantee Act 2012, to assist employees whose employment has ended due to an insolvency event with their employer. Where there are insufficient funds available, FEG provides financial assistance, called an advance, to cover certain employment entitlements including:

- Wages – up to 13 weeks of unpaid wages (including commissions in most cases)
- Annual leave and long service leave
- Payment in lieu of notice to a maximum of 5 weeks
- Redundancy pay to a maximum of 4 weeks per full year of service.

To be eligible for Fair Entitlements Guarantee (FEG) assistance, former employees must meet all of the eligibility requirements outlined in the Fair Entitlements Guarantee Act 2012. The scheme does not apply whilst a company is in voluntary administration, however in the event that creditors resolve to place the company into liquidation at the second meeting of creditors, FEG may be available to employees if required.

Additional information for employees can be found on the FEG site at

<https://www.employment.gov.au/fair-entitlements-guarantee-feg>.

Unsecured creditors including noteholders

A liquidator has the benefit to recover certain transactions for the benefit of all creditors. As discussed in Section 9.5 of this report, this may include recovery action against the Directors or other related parties to the Directors.

A Liquidator may also pursue certain payments (known as unfair preferences) made by the company to individual creditors in the six months before the start of the liquidation. Broadly, a creditor receives an unfair preference if, during the six months prior to liquidation, the company is insolvent, the

creditor suspects the company is insolvent, and receives payment of their debt (or part of it) ahead of other creditors. To be considered an unfair preference, the payment must put the creditor receiving it in a more favourable position than other unsecured creditors. Not all payments from the company to a creditor in the six months before liquidation are unfair preferences. The Corporations Act provides various defences to an unfair preference claim.

Financial outcomes in liquidation are uncertain and often rely on litigation to effect recoveries, which contains inherent risk that should be considered by creditors.

Secured creditors (including MRI)

The effect of a liquidation scenario for secured creditors is that the secured property is realised by a Liquidator, or a Receiver, to satisfy the amount owing to them. Should the value of the secured asset be greater than the amount outstanding, and that amount is recovered through the sale of the asset, any residual funds after the repayment of the secured creditors amount outstanding is made available for priority and other creditors (trade creditors and noteholders).

In the case of KBL, Quintana has a general security which attaches to all present and after acquired property of KBL. As part of a broader commercial arrangement between KBL and MRI, MRI have been granted a priority security over KBL's shares in Sorby and have first priority from any proceeds from the sale of these shares. Based on our understanding of the Mineral Hill asset and Sorby Hills asset, it would be unlikely that residual amounts would be available for unsecured creditors following repayment of part or all of the secured creditor's debt.

Trustee for the noteholders

The trustee for the noteholders have submitted an informal proof of debt in the amount of \$114k and advised they have a priority from proceeds to be distributed to noteholders. At this stage, we have not adjudicate their claim or its priority, however if the trustee's position is held to be true they will have first right from any proceeds to be received by noteholders.

11. Estimated returns from Liquidation

The purpose of a liquidation of an insolvent company is to have a Liquidator take control of the company so that its affairs can be wound up in an orderly and fair way for the benefit of all creditors. Set out in Appendix K is an analysis indicating a possible range of returns for creditors in the event of liquidating KBL.

As noted previously, it is unlikely that sufficient assets would be realised by the Receivers or Administrators to fund a distribution to priority creditors (employees) or unsecured creditors. In that case, it is likely that employees (priority creditors) would rely on the Federal Government Fair Entitlements Guarantee (FEG) scheme to fund their entitlements, and any dividend for unsecured creditors would be as a result of successful recoveries from a Liquidator's action for insolvent trading and/or voidable transactions.

In section 9.4 of this report, we have identified c\$17.8m of transactions (\$11.4m in respect of insolvent trading related claims and \$6.4m in respect of potential preference payments) which a Liquidator may be able to pursue on behalf of creditors.

Given the complex nature of Australian insolvency law and the potential defences available to Directors and other parties, Liquidator's actions are often costly and potentially long dated entailing a high degree of risk and uncertainty with no guarantees of success.

Should the creditors choose to place KBL into Liquidation a more substantive investigation will be conducted to consider the merits of proceeding with any recovery action having regard to the relative costs and benefits together with the prospects of success and the financial ability of defendants to meet claims.

Funding available for Liquidator's recoveries

It is unlikely that assets will be available to a Liquidator 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). Should KBL be placed in Liquidation, there are three broad options a Liquidator could consider to assist in funding litigation which may 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; whilst designed to fund enforcement assistance for ASIC rather than recoveries, the Assetless Administration Fund can provide an ancillary benefit in terms of access to results of funded work carried out
- 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 are typical commercial terms of a litigation funding packages:

- Funding provided for Liquidators’ fees and costs to conduct more detailed investigations in to the affairs of KBL, 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

Should creditors resolve to place the company in Liquidation, the Liquidators would assess all funding options and consult with the creditors accordingly.

Estimated returns from winding up

Our preliminary investigation 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.

Set out below is a summary of expected distributions to each class of creditors in a liquidation. The major assumptions of each scenarios are set out below:

- Low case** – assumes unsuccessful litigation and a zero return to unsecured creditors
- Mid case** – assumes litigation funding is obtained and a settlement is agreed by the Liquidator
- High case** – assumes litigation funding is obtained and litigation is successful

Estimated outcome for creditors in Liquidation			
Cents in the dollar	Low	Mid	High
Secured creditor	Not disclosed	Not disclosed	Not disclosed
Priority creditors	100%	100%	100%
Unsecured creditors (including noteholders)	0%	Uncertain	Uncertain

Full details of this analysis is set out in Appendix K.

12. Deed of Company Arrangement

12.1 Deed of Company Arrangement proposal received

A DOCA is a procedure allowing a Company to make a compromise or arrangement binding creditors. This provides for a modification or adjustment of the rights and obligations owing by the Company to creditors. The Act provides the procedures for effecting such modification or adjustment, and enables the arrangement to be made binding on all creditors if agreed to by a majority at a meeting of creditors. Certain creditors holding security are not necessarily bound by the DOCA unless they have voted in favour.

If creditors resolve to accept the proposed DOCA, the DOCA will commence when both the Company and the Administrators have properly executed the DOCA. If a DOCA has been executed the Company continues its legal existence. The Company is described as being "Subject to Deed of Company Arrangement".

Pursuant to Section 444D(1) of the Act, a DOCA binds all creditors of the Company in respect of their claims arising on or before the day specified in the DOCA (which is usually the day when the Administration of the Company first began).

Pursuant to Section 444D(2) of the Act, secured creditors are not prevented from realising or otherwise dealing with their security, except so far as the DOCA so provides in relation to a secured creditor who voted in favour of the resolution; or except so far as the court orders. Section 444D(3) of the Act also provides that the rights of an owner or lessor of property to the Company, in relation to that property, is not affected except so far as the DOCA so provides and the owner or lessor voted in favour of the DOCA, or except so far as the court orders.

Pursuant to Section 444E of the Act until a DOCA terminates, any person bound by the DOCA cannot make or proceed with an application to wind up the Company, or begin or proceed against the Company in relation to its property by enforcement process or otherwise, except with leave of the court.

In order for the Company to be reinstated on the Official Listing of the Australian Securities Exchange ("ASX") there are certain requirements that the Company must comply with. The ASX regulatory guides revealed that at a minimum, the Company must comply with the following:

- 1) Confirmation of completion of the transactions to facilitate the recapitalisation following approval by shareholders at a general meeting;
- 2) Confirmation of the issue of securities and dispatch of holding statements for any securities issued as part of the recapitalisation proposal as approved by shareholders;
- 3) Confirmation that the Company has satisfied each of its obligations pursuant to the DOCA and accordingly, that the DOCA is terminated;
- 4) Provision of documents, suitable for release to the market, relating to shareholders, financial statements, capital structure, expenditure budgets and directors' interests, as appropriate;
- 5) Lodgement of any outstanding reports since the Company's securities were suspended and any other outstanding documents;

- 6) Payment of any ASX fees applicable to the reinstatement and otherwise outstanding;
- 7) The issuance of an unqualified audit report on the Company's financials that alleviate the issues surrounding the Company's ability to continue as a going concern;
- 8) A statement from the ASX confirming the Company is in compliance with the Listing Rules; and
- 9) Provision of any other information requested by the ASX.

The ASX may have further requirements that the Company must comply with prior to it being reinstated on the official listing.

12.2 Creditors' Trusts

The Proposed DOCA includes establishment of a 'Creditors Trust'. ASIC have released a guide for Registered Liquidators appointed under Part 5.3A of the Act, being Regulatory Guide 82 "External Administrations: Deed of Company Arrangement involving a Creditors' Trust" regarding material information to be disclosed when a proposal comprises the use of a Creditors' Trust. We have addressed this below.

Whilst the ASIC guide is a guide only and doesn't have the force of law, it is important to consider and it is appropriate to report on the matters identified in the Guide.

In light of the information to be disclosed as prescribed by the Guide, material information which has been identified as being relevant for creditors to consider prior to accepting a proposed DOCA, which will lead to the creation of a Creditors' Trust, has been included in this report.

12.3 Overview of the proposed DOCA

As described above and set out in greater detail below, the Proposed DOCA provides for the establishment of a Creditors Trust, on effectuation of the DOCA's terms.

A Trust in a DOCA is a mechanism used to accelerate a company's exit from external administration. To date, it has been used most commonly (but not exclusively) in connection with the rehabilitation of public companies listed on the Australian Stock Exchange.

Typically, under the terms of the DOCA and one or more interconnected deeds, a trust entity is created and the Company's obligations to some of all of the creditors bound by the DOCA are transferred to the trust. Those creditors become beneficiaries of the trust upon releasing their claim against the Company.

Upon the creation of the Trust under the Proposed DOCA, the DOCA will be wholly effectuated. The main implication is that the Company ceases to be classified as Externally Administered.

Reasons for the Proposal for the Trust

The reason for the proposal for the Trust is to enable the recapitalisation of the Company. Any prudent proposal will immediately require the DOCA to be wholly effectuated for the following reasons:

- So that the Company will no longer be required to use the notification "Subject to Deed of Company Arrangement" on their public documents pursuant to Section 450E(2) of the Act;
- So that the Company will no longer be subject to External Administration and Part 5.3A of the Act; and

- So that the Company is able to be relisted with the ASX (which has the benefit of reducing holding costs incurred whilst the Deed Administrators are appointed, resulting in a higher return to creditors).

The above requirements cannot be achieved through a DOCA mechanism due to the fact that the DOCA cannot be wholly effectuated until a distribution is made to the participating creditors. All proposals received by the Administrators were contingent on the Company relisting on the ASX and therefore all contemplated the creation of a Trust.

12.4 Key events in the proposed DOCA

The Proposed DOCA contemplates the following key events:

- 1) Creditors resolve to accept a recapitalisation proposal in the form of a DOCA followed by a Creditors Trust
- 2) The Proponent execute an agreement documenting the agreed terms
- 3) Upon satisfying the relevant requirements of the successful proponent's recapitalisation proposal, the benefit or the recapitalisation proceeds (which will be realised after the execution of the Creditors' Trust), will be settled in the Trust. The Deed Administrators will sign a Notice of Effectuation for the DOCA.
- 4) Upon execution of the Trust and effectuation of the DOCA, the Company is no longer Externally Administered. The claims of creditors become entitlements as beneficiaries under the Trust; and
- 5) The beneficiaries will be entitled to participate in a distribution from the Trust Fund in the manner prescribed by section 556 of the Act, or as the proposal requires.

12.5 Trustee particulars

The Trustees will be Stephen Vaughan and I, who are Registered Liquidators with substantial experience in administering companies in External Administration (including experience with Creditors' Trusts

Mr Vaughan and I are a director and partner of KPMG respectively. Each insolvency practitioner of the firm holds the usual form of Professional Indemnity Insurance issued to accounting firms.

12.6 Remuneration of Deed Administrators and Trustees

Should creditors resolve to accept the DOCA and create the Trust, I will be seeking approval of remuneration required to administer the DOCA until it is wholly effectuated and subsequently administer the Trust in the capacity as Trustees until the dissolution of the Creditors' Trust.

The duties and obligations which the Trustees will have under the proposed Trust will be equivalent to those duties and obligations applicable to the Deed Administrators. As such, the Deed Administrators' remuneration will cover the Deed Administrators' work that will be undertaken until the creation of the Trust, and subsequent to the creation of the Trust, the remuneration for the work that will be undertaken pursuant to the Trust.

The remuneration that I am seeking as Deed Administrator and Trustee, if such a proposal is resolved, is detailed in Appendix N of this report.

12.7 Indemnities

In most circumstances, the Trustees will be entitled to an indemnity out of the trust funds for the Trustees' remuneration, expenses, and claims made against the Trustee in connection with administering the Trust, and for any remuneration, expenses and claims made against the Trustees in connection with having acted as Administrators of Deed Administrators. The indemnities mirror the indemnities that the Deed Administrators would be entitled to under the DOCA. No other indemnities have been sought or granted by the Administrators.

12.8 Powers

Pursuant to the Act, a Deed Administrator generally has the powers under the prescribed provisions provided under Schedule 8A of the Corporations Regulations.

Pursuant to the proposed Trust, the Trustees' powers would be the powers and rights of a duly appointed Trustee under statute and law. In addition to those powers, the Trustee would have additional powers to enable the proper administration of the Trust Fund for the purpose of distributing the funds to creditors/beneficiaries. The important powers will be those related to the distribution of the funds, which will be included in the trust deed.

The additional powers to those conferred under the Trust Act would in essence be:

- To administer the Trust Fund and assets available under the Trust Fund
- To make interim or other distributions of the Trust Funds;
- To appoint any agent to do any business or to attend to any matter or affairs of the Trust that the Trustee/s is unable to do, or that it is unreasonable to expect the Trustee/s to do, in person;
- To appoint a solicitor, accountant, or other professionally qualified person to assist the Trustee/s
- To compromise any creditor's/beneficiary's claim on terms the Trustee considers fair;
- To pay any class of creditors/beneficiaries in full;
- To do anything that is incidental to exercising the above mentioned powers;'
- To do anything else that is necessary or convenient for the purpose of administering the Trust;
- To convene meetings of the creditors/beneficiaries for any purpose the Trustees deem appropriate.

The powers which generally would not be available to the Trustee/s, however would be available under a DOCA, are as follows:

- To enter upon the premises of the Company at any time;
- To lease or let on hire the property of the Company (except property of the Trust);
- To grant options over property of the Company (except property of the Trust);
- To repair, renew or enlarge the property of the Company (except property of the Trust);
- To call in, collect or convert into money the property of the Company (except property of the Trust);
- To borrow or raise money secured upon assets of the Company;
- To bring, prosecute and defend in the name and on behalf of the Company (unless otherwise agreed);

- To refer to arbitration any question affecting the Company;
- To convene and hold meetings of the members or creditors of the Company (unless otherwise provided for in the Trust);
- To engage or discharge employees on behalf of the Company;
- To permit any person to operate any account in the name of the Company;
- To do all acts and execute in the name and on behalf of the Company all deeds, receipts and other documents;
- To prove in the bankruptcy of any contributory or debtors of the Company;
- To prove in the winding up/DOCA/Scheme of Arrangement of any contributory or debtor of the Company;
- To draw, accept, make or endorse any bill of exchange or promissory note in the name and on behalf of the Company;
- To bring or defend winding up applications of the Company;
- To carry out the business of the Company;
- To sell any property of the Company;
- To close down the whole or any part of any business of the Company;
- To enter into and complete any contract for the sale of shares in the Company (unless otherwise provided for in the Trust);
- To inspect, review and copy any book or record of the Company; and
- To take control and possession of the assets and undertakings of the Company.

As shown above, there are key risks with the use of Creditors' Trusts. In particular, the main risks arise when a Deed is "effectuated", and therefore the above-mentioned Deed Administrators' powers and creditors' rights against the Company are extinguished.

Claims

Upon receipt of all Trust Funds and realisation of assets under the Trust, unless the proposal states otherwise, the Trust Funds will be distributed in accordance with the priorities of Section 556 of the Act.

Compliance Opinion

It is an inherent risk that a successful proponent's proposal is not ratified by the Company's members, which will result in the proponent and the Company not complying with the terms of the agreed proposal. Furthermore, with respect to those proposals which require a public offering in order to raise the recapitalisation proceeds (as the DOCA Proposal does) there is an added risk of non-compliance.

Insolvency/Solvency statement

The effectuation of the DOCA (given that the DOCA proposal is accepted and results in the settlement of a Creditors' Trust as envisaged in this Report) will result in the Company holding cash and the Sorby Assets and no material liabilities.

The new board of directors of the Company required to be chosen by the Proponent, and appointed after the Company is recapitalised, will have the responsibility for maintaining the solvency of the Company thereafter.

Taxation implications for the Creditors and other beneficiaries

There may be tax implications for creditors if they accept the proposal and create a Trust, as any distribution made under the trust will be made by way of a distribution to the creditors as beneficiaries, whereas under a DOCA the payment would still be made to creditors in their capacity as creditors.

Further, the DOCA Proposal contemplates the vesting into the Trust of a tranche of shares in the Company. Creditors will need to consider the taxation implications of dealing with these assets as and if they become available by way of distribution.

Typically, creditors and their advisors should consider if they have previously written off the full amount outstanding by the Company, they would be taxed on the full amount distributed by the Trust. If creditors have only written off part of the amount, creditors would need to adjust their write off and would be taxed on the distribution made by the Trust and would receive a deduction for any additional amount they have written off.

Notwithstanding the general guidance above, as every creditor may have different circumstances regarding their tax affairs, I cannot provide any further comment and recommend that creditors seek their own professional advice regarding the tax implications should they accept the DOCA Proposal.

12.9 The DOCA Proposal

On 9 December 2016 we received a draft non-binding DOCA proposal from Everblu Capital Pty Ltd. Essentially the Proposal provides for the Receivers and Managers to realise all of the assets of the Company, save for Sorby, in partial satisfaction of Quintana's Secured Debt. It then provides for a capital restructure and subsequent raising of between \$3.6m up to \$5.6m to create a Fund that is then available to distribution to Secured, Priority and Unsecured creditors (including Noteholders) in full and final satisfaction of their claims. The capital raising was to be underwritten to \$3.6m, being the minimal subscription under the raising (refer below).

Following receipt of the Proposal, negotiations then continued between the Administrators, the Receivers and Managers, other Secured creditors and the Proponent, resulting in the receipt of a final draft non-binding DOCA Proposal on the day of this report, being 25 January 2017, which is annexed at Annexure L and summarised below. On the morning of this report, the proponents also verbally advised their offer for underwriting had been withdrawn which previously formed the basis for discussions.

The effect of the removal of the underwriting is that funding for the costs of the capital raising is uncertain and, in the absence of an underwriting, creditors would effectively carry the risk of the capital raising. As such, I have advised the Proponent that the underwriting has to be a condition to the DOCA or the proponent has to arrange a funding package that leaves creditors no worse off than is contemplated in their draft proposal. For the avoidance of doubt, the analysis in this report is constructed on the assumption that underwriting or alternative funding will be arranged by the proponent. Failing this, the DOCA is not capable of being recommended.

We set out below the key steps to the draft Proposed DOCA.

Step 1 – Transfer of shares to creditors and other parties

The DOCA requires the majority of shares in KBL be transferred to creditors and other parties. Pursuant to s444GA of the Act, Administrators have the power to transfer shares in a company subject to approval from the Court to confirm the value of the equity is substantially zero.

The specifics of the application are set out below:

The Deed Administrators will make an application to the Court for approval of the following:

- 1) Transfer of 394,396,235 pre consolidation shares (which is approximately 13.62 pre-consolidation shares per Note) to Noteholders who elect to take shares in satisfaction of their claims under the Notes
- 2) Transfer of pre consolidation shares equivalent in value to \$1m to Quintana
- 3) Transfer of 317,880,607 to the Deed Administrator/Creditors Trustee to be realised on behalf of Priority Creditors for the payment of their entitlements in full. If the value ultimately realised for these shares is insufficient to discharge the priority secured claims in full, then the Company will issue additional shares to meet this requirement
- 4) Transfer of 538,917,428 pre consolidation shares to the Deed Administrator/Creditors Trustee to be realised on behalf of Unsecured Creditors (including Noteholders who do not elect to take shares under Point 1 above). Unsecured Creditors will rank equally against the proceeds of realisation of these shares
- 5) Transfer of 298,688,566 pre consolidation shares to the Proponent and 692,273,321 shares to the Underwriter or sub-underwriting, as the case may be
- 6) Other matters to give effect to the draft DOCA Proposal, as set out in Appendix L

Following a transfer of shares, a shareholder's meeting will be called to consider the consolidation of existing shares on approximately a 71 to 1 basis. A consolidation of shares proportionately reduces the number of shares on issue for each shareholder of the company and does not affect the overall value of their holdings.

Step 2 – Rights issue and capital raising process

Following a transfer and consolidation of the shares, KBL will then seek to raise up to \$5.6m from a rights issue. The rights issue will allocate 43% of new shares to participating parties at a notional price of 20c per share (market capitalisation of \$13.1m), with the balance of new shares allocated in accordance with Step 1 above. The underwriter has provided best endeavours to arrange underwriting of \$3.6m for the proposal.

The monies raised will be used to provide working capital for KBL as well as a cash contribution to the DOCA/Creditors Trust. The portion of cash and shares allocated to the DOCA/Creditors Trust is adjusted depending on the amount raised, on the following scale:

- 1) If between \$3.6m and \$4.6m is raised, then \$1.5m cash is payable to the DOCA/Creditors Trust and the balance of cash is retained by the Company for working capital. In addition, \$4.528m in shares are issued to the Trust (total consideration of \$6.028m)
- 2) If between \$4.6m and \$5.6m is raised then the sum raised less \$3.1m is payable to the DOCA/Creditors Trust and the balance of cash is retained by the Company for working capital. In addition, \$4.028m in shares are issued to the Trust (total consideration of \$6.028m)
- 3) If \$5.6m is raised then \$2.5m cash is payable to the DOCA/Creditors Trust and the balance of cash is retained by the Company for working capital. In addition, \$3.528m in shares are issued to the Trust (total consideration of \$6.028m)

The draft Proposed DOCA also provides for the sum of \$1.0m cash from the proceeds of the capital raising to be paid to the Trust for the purpose of procuring the release of MRI's security over the shares in KBL Sorby Hills Pty Ltd.

Step 3 – Establishment of a creditors trust

A creditor's trust will be established in order to hold and distribute cash and shares received from KBL in full and final satisfaction of creditor's claims, who will become beneficiaries of the trust. Any shares received by the trust will be sold and turned to cash over a period of 18 months and distributed to creditors.

Of the total consideration received by the Trust, the Trustee will make the following distributions:

- 1) \$0.5m in cash to the Administrators/Deed Administrators/Creditors Trustee in part satisfaction of their fees, disbursements and certain costs of effectuating the Proposal
- 2) \$1.0m to enable the Company to have unencumbered title to the shares in KBL Sorby Hills Pty Ltd
- 3) \$1.9m in shares to be sold and the proceeds distributed to Priority Creditors
- 4) \$1.11m in shares to be sold and the proceeds distributed to unsecured creditors

12.10 DOCA conditions

The Proposed DOCA is conditional on the following:

- 1) Approval of Creditors
- 2) Approval of the Court
- 3) Approval by ASX
- 4) Approval of Shareholders
- 5) Agreement of Secured Creditors on the terms set out in the Proposal at Annexure X
- 6) Minimum subscription under the capital raising being met

The DOCA recapitalisation of KBL requires a number of regulatory and commercial steps in order for the transaction to complete. It is intended that the DOCA be managed in such a way as to minimise these risks as best as possible, however, there are elements outside of the Administrators' control which may cause the DOCA to be terminated or varied which may include:

Proponent defaults on the DOCA – should creditors approve the DOCA however the proponent defaults on its obligation before a binding document is signed it is likely KBL will be liquidated. This includes failing to arrange underwriting or up front funding for the capital raising costs.

Unsuccessful capital raising – should the capital raising be unsuccessful, or the underwriter default on their obligations insufficient cash will be available to creditors.

Failure to obtain Court approval – the DOCA requires the consent of the Court to transfer shares from shareholders to creditors under s444. There is a risk the Court will not provide its approval following a shareholder challenge.

Failure to obtain ASX approval – the recapitalisation of KBL must adhere to the ASX listing rules, or receive a waiver of any unadhered rules by the ASX. The DOCA stipulates that KBL must take all reasonable steps to comply with these listing rules.

Secured creditor releases – secured creditors are not bound by a DOCA unless voted favourable for it.

In the event that the capital raising is unsuccessful or the Deed Administrators determine it is no longer practical to continue the DOCA, a meeting of creditors will be called in order to consider either

varying the DOCA or terminating it and placing the Company into liquidation. An application may also be made to Court to amend or vary the DOCA.

12.11 Estimated returns for creditors

Creditors will receive a combination of cash and shares, all of which will be sold before the cash is distributed to creditors. The DOCA treats each class of creditors differently, subject to a waterfall of cascading priorities and differing risks which are discussed below.

Quintana

In consideration for the release of its general security, the DOCA provides Quintana with 7.4% of the shareholding (worth approximately \$1 m assuming the price of shares remains at 20c following the relisting). In addition, Quintana will be provided with a net smelter royalty of 2% of future revenue generated by Sorby.

MRI

An amount to be agreed between the Administrators and MRI as reasonable consideration for the release of their security.

Priority creditors (employees)

Priority Creditors (including Excluded Employees under the Act) have approximately \$1.9m of entitlements owing to priority creditors and will be satisfied by the realisation by the Trustee of the shares allocated to Priority Creditors in order to pay a cash dividend. In the event that the share price falls and insufficient cash is realised for employees, KBL will allocate additional shares to the creditors trust in order that employee claims are paid in full.

Noteholders

Noteholders claims total c\$11m and under the DOCA can elect to be treated as unsecured creditors, or alternatively be allocated shares through a debt for equity swap.

Noteholders may elect to receive 13.62 pre consolidation (ie. approximately 0.19 post consolidation) shares in satisfaction of their claim. Should the DOCA be approved by creditors, noteholders will be written to separately and in more detail to assist them in their decision to be transferred shares or be treated equally with unsecured creditors as detailed below.

Unsecured creditors

Unsecured creditors are comprised of trade creditors and Noteholders who do not elect to swap their claim for shares. The value of unsecured claims is approximately c\$15m, and assuming no Noteholders elect to convert their notes to shares the value of the unsecured creditor claims are estimated to be \$26m. Unsecured creditors will be allocated 13.2m shares (20% of total shares) in the new entity worth \$2.6m should the share price of KBL remain at the intended raising price of 20c per share.

The financial outcomes for creditors are aligned to the future share price of KBL and the price which can be achieved by the trustee upon disposal. The value of shares is unpredictable and may increase or decrease depending on market conditions, and as such, accurately predicting the outcome for unsecured creditors is difficult.

Set out below is a table of possible estimated returns to unsecured creditors depending on the share price movements of KBL. Three scenarios have been considered, however it should be noted that the

possible outcomes for unsecured creditors extend beyond the high case if KBL's share price increases beyond 40c. The scenarios considered are as such:

- **Low case** - assumes the share price of KBL falls to zero
- **Mid case** – assumes the share price of KBL remains at the raising price of 20c
- **High case** – assumes the share price of KBL doubles from the raising price to 40c

Estimated outcome for creditors for the DOCA			
Share price of KBL	0 cents	20 cents	40 cents
Secured creditor	Not disclosed	Not disclosed	Not disclosed
Priority creditors	100c	100c	100c
Participating Noteholders (Tranche 3)	0c	10c	20c
Unsecured creditors (Tranche 4)	0c	6c	11c

A sensitivity for differing levels of Noteholder participation is set out in the Appendix K.

12.12 Other parties subject to the DOCA

Administrators fees and costs

The DOCA provides that \$0.5m for Administrators and Deed Administrators' fees and costs be funded from the creditors trust. To the extent that creditors approve additional fees, further funding may be drawn from the pool of funds made available for unsecured creditors in the creditors trust.

Full details of the Administrators' fees are provide in Section 16 and Appendix N of this report.

Existing shareholders

Existing shareholders are not creditors of KBL. However the DOCA provides that existing shareholders are diluted from full ownership of KBL to 1.4% following the share transfer and rights issue. The continuing ownership of shares by existing shareholders ensures KBL has sufficient shares on issue to meet ASX listing rules.

Proponent's fee

The proponent of the DOCA have incurred fees and costs in proposing the recapitalisation transaction. In consideration for this effort, the DOCA provides the proponent with a 6.4% shareholding of the new entity equating to \$0.8m should the share price remain at 20c. If required for the purposes of ASX listing rules, the proponent may also be issued an option for 15% of the raised shares with a 5 year term and 30c exercise price.

Underwriter's fee

Under the underwriter's indicative, and non binding offer, the underwriters have agreed to take up \$3.6m of shares in the rights issue in order to provide certainty for the transaction. In compensation for this risk, the proponent has negotiated that the underwriters are provided a 14.9% shareholding of the new entity equating to \$2.0m should the share price remain at 20c. If required for the purposes of ASX listing rules, the proponent may also be issued an option for 35% of the raised shares with a 5 year term and 30c exercise price. There is potential that an alternative funding proposal may be received for underwriting.

13. Estimated outcome statement

We expect the DOCA will provide the same, or better, return for each class of creditor as compared to a Liquidation.

The estimated returns for creditors under a DOCA are further analysed in Section 12 of this report.

The estimated returns for creditors under a Liquidation are further analysed in Section 11 of this report.

A financial examination of each scenario is set out in Appendix K

14. Options available to creditors and administrators recommendation

Pursuant to Section 439A(4)(b) of the Act, we provide creditors with a statement setting out our opinion for KBL as to whether or not it is in creditors' interests for:

- The company to execute a Deed of Company Arrangement; or
- The Administration to end; or
- The company to be placed into Liquidation.

14.1 Deed of company arrangement

As outlined in this report, following a public expressions of interest campaign, the Receivers and Managers and Administrators received one non-binding draft proposal to restructure and recapitalise the Company via a DOCA.

The recapitalisation proposal provides for the continuation of KBL with the Sorby project and creditors with more certainty in respect to the financial outcomes as compared to Liquidation, and on balance a more superior return. On the condition that underwriting, or a similar funding package is arranged and based on the increased certainty and potentially superior financial returns provided by a DOCA as compared to Liquidation, **the Administrators recommend that creditors accept the proposed DOCA.**

For the avoidance of doubt, if the Proponent does not submit a binding DOCA proposal on substantially the same terms as that set out in Annexure L, which includes either a condition that it is underwritten to at least \$3.6m or provides for alternate funding, then our recommendation may change.

14.2 Liquidation

Creditors may resolve to wind up the Company. Pursuant to section 446A of the Act, if such a resolution is passed, the Company will be immediately placed into liquidation and the Administrators will become the Liquidators.

In the event that the Company is placed into liquidation, any return to creditors would likely only be available from recovery actions bought by a liquidator. As noted previously, these Liquidator actions contain a significant degree of risk are presently unfunded.

Should KBL be wound up at the forthcoming meeting of creditors, it is unlikely to result in a return to priority and unsecured creditors that is superior to the return proposed in the DOCA. **In these circumstances, based upon the expected return under the DOCA Proposal, it is my opinion that it is not in the creditors' interests for the Companies to be wound up.**

14.3 The administration to end

Creditors may resolve that the Administration end at the Second Meeting and the Companies return under the control of their directors. At the date of this report, all directors of KBL have resigned and given the financial position of KBL **it is my opinion that it is not in the creditors' interest for the Administration to end.**

15. Administrators' opinion

Based on the estimated returns to all classes of creditors, it is my opinion that it is in the creditors' best interest for the Company to execute the proposed DOCA.

16. Remuneration

This section of our report summarises key aspects of the Administrators' claim for remuneration as well as expected prospective remuneration of a Deed Administrator or Liquidator, if appointed.

Pursuant to s449E of the Act, an Administrator is entitled to such remuneration as is determined by agreement between the Administrator and the Committee of Creditors, or by resolution of the Company's creditors, or, if there is no such agreement or resolution, by the Court.

Creditors may approve fees of an administrator by passing a resolution at a creditors meeting and we will seek various resolutions in approval of the Administrators' fees at the Second Meeting.

Attached at Appendix M is an information sheet by ARITA providing general information for creditors on approving remuneration in external administrations.

Further details of remuneration, together with the resolutions that will be proposed at the Second Meetings, are set out in the Administrator's Remuneration Report attached as Appendix N.

16.1 KPMG Restructuring Services guide to hourly rates

In our first circular to creditors dated 12 September 2016, we provided creditors with a Remuneration Advice that noted that we proposed to charge fees on time based / hourly rates basis. We attached a guide to hourly rates which included the following based on our costs of running an insolvency business, including KPMG's professional staff and other overheads, and are generally similar to other insolvency professionals:

KPMG Restructuring Services - hourly rates	
Role	Hourly rate (excl. GST) \$
Partner / Appointee	700
Director	595
Associate Director	525
Manager	475
Executive / Assistant Manager	350
Analyst	275
Administrative Assistant	140

16.2 Administrators' remuneration to 3 February 2017

The work undertaken by administrators depends on the type of administration concerned and the issues that need to be resolved. Some issues are straightforward, while others are more complex. However, what is common amongst all administration types is that an administrator is, by law, required to undertake a number of tasks which may not directly benefit creditors (for example, the preparation of reports to ASIC or the preparation and lodgement of accounts of receipts and payments).

An administrator is entitled to reasonable remuneration for work performed including statutory tasks. Creditors have an interest in the level of fees and costs, as the administrator will, generally, be paid from the company's available assets before any payments to creditors are made.

Administrators' remuneration for the period 8 September 2016 to 18 September 2016 (the VA Trading Period)

On 8 December 2016, a Committee meeting was convened to provide an update to the Committee on the progress of the Administration and consider the Administrators remuneration for the Trading Period of the Administration (8 September 2016 to 18 September 2016). The Committee unanimously approved the Administrators' fees for the amount of \$288,332 plus GST and disbursements. The Administrators' fees for the VA Trading Period form part of the Administrator's statutory lien and will be paid from assets realised by the Receivers.

Administrators' remuneration for the period 19 September 2016 to 3 February 2017 (after the VA Trading Period)

At the second meeting of creditors, creditors will be asked to approve the Administrator's remuneration for the period 19 September 2016 to the date of the second meeting on 3 February 2017 in the amount of \$556,846 plus GST and disbursements. This will be considered in two resolutions:

1. Actual fees incurred of \$506,846 plus GST and disbursements for the period 19 September 2016 to 13 January 2017; and
2. Estimated future costs to the second meeting of a maximum \$50,000 plus GST and disbursements for the period of 14 January 2017 to 3 February 2017. Should less time be incurred than is forecast, a resolution will be passed for less than the proposed cap of \$50,000 plus GST and disbursements.

If approved by creditors, remuneration will be funded firstly from a \$60,000 contribution from the Receivers (as agreed with the Administrators) and the remaining \$496,846 plus GST and disbursements will be funded from either proceeds received from the DOCA (should creditors resolve the company execute the DOCA) or Liquidators' recoveries in a liquidation scenario.

16.3 Deed Administrators' remuneration, in the event of DOCA approval

Based on the DOCA proposal provided and our expectations of a straightforward administration of the DOCA we estimate our cost to complete the proposal will be \$200,000 plus GST and disbursements.

Should creditors resolve that the company execute the DOCA, we will request creditors approve our remuneration in this amount at the second meeting of creditors. We note that should unforeseen complications arise in the DOCA and additional time is required to be incurred we may request creditors approve additional remuneration.

The DOCA provides \$500,000 of funding for Administrator and Deed Administrator fees and costs. An Administrator's costs have statutory priority over a Deed Administrator's costs and as set out above, the DOCA provides funding for \$500,000 of the Administrators' fees and costs. The remaining fees for the Administration and DOCA of \$197,936 will be funded from the unsecured creditors tranche of funding in the DOCA waterfall.

16.4 Combined Administrators' and Deed Administrators' remuneration and sources of funding

Set out below is a summary of the total fees and costs sought for approval for the Administration and Deed Administration periods, combined with an analysis of the sources of funding for the remuneration:

Remuneration in respect of Voluntary Administration and DOCA period										
Phase	Actual 8 Sep 16 - 18 Sep 16		Actual 19 Sep 16 - 13 Jan 17		Prospective 14 Jan 17 to 3 Feb 17		DOCA Period		Total	
	Hours	Remuneration (\$)	Hours	Remuneration (\$)	Hours	Remuneration (\$)	Hours	Remuneration (\$)	Hours	Remuneration (\$)
Administration	45.3	19,005	348.0	133,370	11.4	5,002	49.0	20,108	453.7	177,484
Assets	100.2	41,571	61.0	25,916	34.2	15,005	196.0	80,430	391.4	162,921
Creditors	229.2	98,561	433.3	174,918	22.8	10,003	147.0	60,323	832.3	343,805
Dividend	-	-	-	-	-	-	49.0	20,108	49.0	20,108
Employees	32.6	12,085	25.8	8,413	5.7	2,501	49.0	20,108	113.1	43,106
Investigations	22.8	8,743	185.1	72,883	34.2	15,005	-	-	242.1	96,630
Trade On	226.8	108,367	222.1	91,348	5.7	2,501	-	-	454.6	202,216
Total	656.9	288,332	1,275.3	506,846	114.0	50,015	441.0	201,075	2,536.2	1,046,268

Source: KPMG ref 28422906_13

Sources of funding for Voluntary Administration and DOCA remuneration	
\$	
Receivers contribution under statutory lien	288,332
Receivers contribution for VA costs	60,000
DOCA from underwritten capital raising	500,000
DOCA from unsecured creditor pool (tranche 4)	197,936
Total Remuneration	1,046,268

Source: KPMG ref 28422906_13

16.5 Liquidators' remuneration, in the event of Liquidation

Given the complexity and uncertainty associated with a Liquidation of KBL, we will not seek approval from creditors for our Liquidators' remuneration at this stage. It is also difficult for the creditor body to consider a Liquidator's remuneration without certainty as to funding of a Liquidator's actions.

We propose to conduct further investigative work into the prospects of a Liquidators' recoveries and further advance discussions with potential funders with a view to reporting to creditors with more certainty around a Liquidation scenario and associated costs. However based on our preliminary investigations, we estimate that a Liquidator's remuneration for KBL may be in the range of \$1m to \$2m depending on the nature of recovery actions undertaken.

Should creditors resolve to place KBL to liquidation at the second meeting of creditors, we will seek fee approval from a Committee of Inspection, if one is formed, or alternatively call further meeting of creditors or approach the Court in respect of our fees in a liquidation.

17. Closing

The Administrators will advise creditors in writing, if applicable and practical, of any additional matters that come to hand after the dispatch of this report that, in their view, is material to creditors deliberations.

Should you have any queries with respect to this report, the Proposed DOCA, or the meeting of creditors convened for 10:00am Friday, 3 February 2017, please do not hesitate to contact Leah Diprose of this office via email at au-fm-kbl-mining@kpmg.com.au.



19. Contact us

Matthew Woods

Joint & Several Administrator of KBL Mining Limited

Partner – Restructuring Services

Stephen Vaughan

Joint & Several Administrator of KBL Mining Limited

Director – Restructuring Services

Please direct queries regarding KBL Mining Limited to au-fm-kbl-mining@kpmg.com.au and continue to monitor the KBL Mining Limited ASX Announcements for further updates regarding the Administration

www.kpmg.com.au

This proposal is made by KPMG, an Australian partnership and a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity, and is in all respects subject to the negotiation, agreement, and signing of a specific engagement letter or contract and the satisfactory completion of KPMG’s internal risk assessment procedures. Should the results of our internal risk assessment not be satisfactory, KPMG reserves the right to withdraw this proposal. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

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Document Classification: KPMG Confidential


18. Appendices

A: Instrument of Appointment

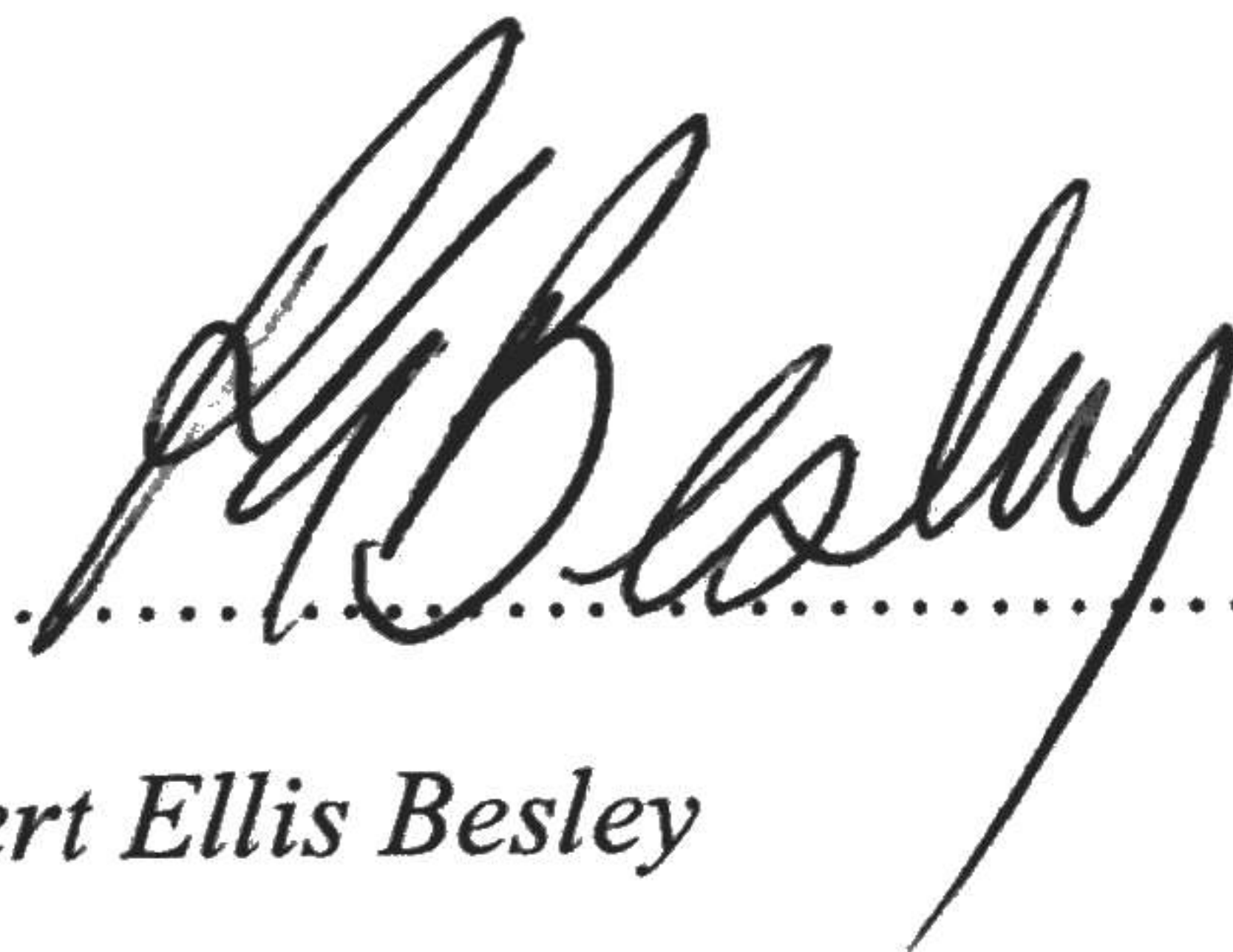
KBL Mining Limited
ACN 129 954 365
("the Company")

In accordance with a resolution of the directors of the Company made on 8 September 2016 at Level 3, 2 Elizabeth Plaza, North Sydney NSW 2060, Matthew Woods and Stephen Vaughan, Registered Liquidators, of KPMG, Level 38, Tower 3, 300 Barangaroo Avenue in Sydney in the state of New South Wales, are hereby appointed joint and several Administrators of the Company pursuant to Section 436A of the Corporations Act 2001.

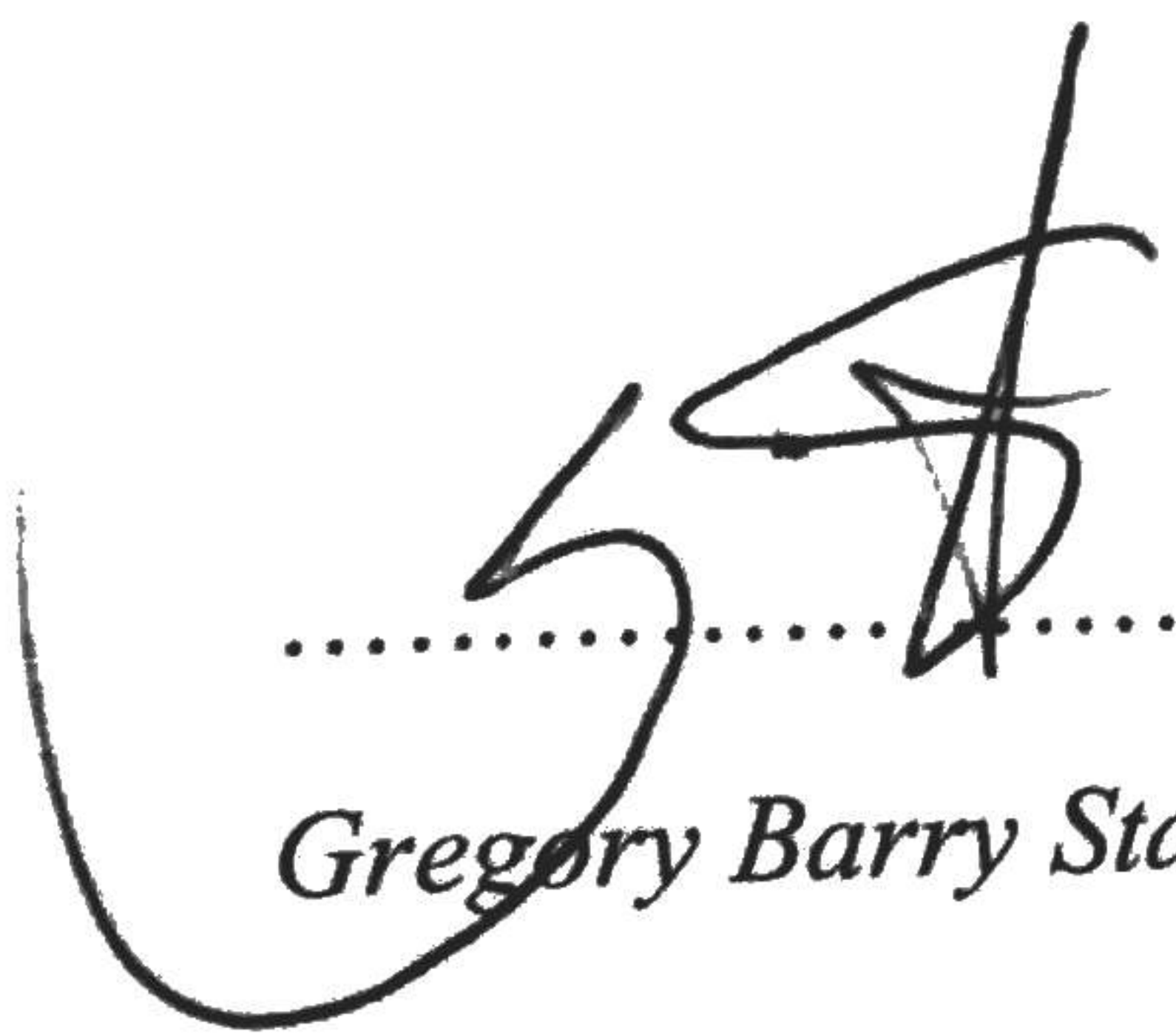
Dated this 8 day of September 2016



James Arthur Wall



Robert Ellis Besley



Gregory Barry Starr

B: Notice of Meeting

FORM 529

Corporations Act 2001 - *Subregulation 5.6.12 (2)*

**NOTICE OF SECOND MEETING OF
CREDITORS OF COMPANY UNDER ADMINISTRATION**

**KBL Mining Ltd (Administrators Appointed) (Receivers and Managers Appointed)
ACN: 129 954 365 (“the Company”)**

Notice is given that a second meeting of the creditors of the Company will be held concurrently at two locations as follows:

1. KPMG Sydney, LVL 38 / Tower 3, International Towers Sydney, 300 Barangaroo Avenue, Sydney NSW 2000 at 10:00 AM on Friday, 3 February 2017; and
2. Railway Motel Condobolin, 46 Molong St, Condobolin NSW 2877 at 10:00 AM on Friday, 3 February 2017.

Creditors will be able to participate in the meeting via teleconference. Creditors should arrive for registration at least half an hour prior to the meeting at all venues.

Agenda

1. To consider the Administrators’ report pursuant to s439a in relation to the Company’s affairs and any other matters raised relating to the Company’s future and the various options available to creditors.
2. To resolve either that:
 - (a) the Company execute a Deed of Company Arrangement (**DOCA**); or
 - (b) the Administration should end; or
 - (c) the Company be wound up; or
 - (d) the meeting be adjourned for up to forty-five (45) business days.
3. If it is resolved that the Company is to execute DOCA, to fix the future remuneration of the Administrators and future remuneration of the Deed Administrators of the Company.
4. If the Company is wound up or is to execute a DOCA, consider whether a Committee of Inspection is to be appointed, and if so, the members of the Committee.
5. To discuss any other business which may be lawfully brought forward.

Dated Wednesday 25 January 2017

**MATTHEW WOODS
JOINT & SEVERAL ADMINISTRATOR**

Note:

Under the Corporations Regulations, a creditor is not entitled to vote at a meeting unless:

- his/her claim has been admitted, wholly or in part, by the administrator; or
- he/she has lodged with the administrator particulars of the debt or claim (regulation 5.6.23).
Furthermore proxies must be made available to the administrator.

A secured creditor may vote for the whole of his debt without deduction for his/her security (reg 5.6.24(4)).

C: Informal Proof of debt

INFORMAL PROOF OF DEBT FORM

Regulation 5.6.47

KBL MINING LIMITED

**(ADMINISTRATORS APPOINTED)(RECEIVERS AND MANAGERS APPOINTED)
(ACN 129 954 365)**

Name of creditor:

Address of creditor:

.....

Email of creditor:

ABN:

Telephone number:

Amount of debt claimed: \$.....(including GST \$)

Consideration for debt (i.e. the nature of goods and/or services supplied and the period during which they were supplied):

.....

Is the debt secured? YES/NO

If secured, give details of security including dates, etc:

.....

.....

Balance, if any, after deducting value of security (see note): \$.....

.....

Signature of creditor (or person authorised by creditor)

* Strike out if applicable

NOTE:

Under the Corporations Regulations, a creditor is not entitled to vote at a meeting unless (Regulation 5.6.23):

- a. his/her claim has been admitted, wholly or in part, by the Administrator; or
- b. he/she has lodged with the Administrators particulars of debt or claim, or if required, a formal proof of debt.

For the purpose of Part 5.3A, a secured creditor may vote (Regulation 5.6.24):

- a. for the whole of his/her debt without regard to the estimated value of his/her security.

Proxies must be available to the Administrator.

Please return completed forms to:

KPMG Restructuring Services

Level 38 Tower Three

Barangaroo Avenue

Sydney NSW 2000

or via email to AU-FM-KBL-Mining@kpmg.com.au

D. Proxy Form

FORM 532
CORPORATIONS ACT 2001

Regulation 5.6.29

APPOINTMENT OF PROXY
CREDITORS MEETING

KBL Mining Limited (Administrators Appointed)(Receivers and Managers Appointed)
ACN: 129 954 365 (the Company)

Instructions:

Please complete Sections A, B, C and D and submit in accordance with the Section E.

* Strike out if inapplicable.

A. Name and Contact Details of Person or Entity Entitled to Attend Meeting

(if entitled in a personal capacity, given name and surname; if a corporate entity, full name of company, etc)

of

(address)

Tel:

Fax:

B. Appointment of Person to Act as Proxy

Note: You may nominate "the Chairperson of the meeting" as your proxy (or your alternate proxy in the event that the first-named proxy is not in attendance).

*I /*We, as named in Section A above, a *creditor /*contributory/*debenture holder/
*member of the Company, appoint

(name of person appointed as proxy)

(address of person appointed as proxy)

or in his/ her absence

(name of person appointed as alternate proxy)

(address of person appointed as alternate proxy)

as my proxy to vote at the meeting of creditors to be held on Friday, 3 February 2017 at 10:00 AM, or at any adjournment of that meeting in accordance with the instructions in Section C below.

Resolution	For	Against	Abstain
1. That the Company execute a Deed of Company Arrangement (recommended).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. That the meeting be adjourned for a period not exceeding forty-five (45) business days.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. That the Company be wound up on Friday, 3 February 2017.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. That the Administration should end.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Per the attached Remuneration resolutions, the Administrators and Deed Administrators remuneration be approved for:

5. The period 19 September 2016 to 13 January 2017 in the amount of \$506,846.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The period 14 January 2017 to 3 February 2017 in the amount of \$50,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. That the remuneration of the Deed Administrators, for the period 4 February 2017 onwards of \$200,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C. Voting Instructions

Note: A **general proxy** is entitled to vote on any resolution, subject to Regulation 5.6.33 of the Corporations Regulations 2001, as they see fit at the meeting - tick the "**general proxy**" box.

A **special proxy** is entitled to vote **only** in accordance with your specific instructions - tick the "**special proxy**" box and indicate your specific voting instructions by ticking **one option only for each** resolution for which you wish to give such instructions.

Your proxy may act as both a **special proxy**, in accordance with your instructions in relation to specific resolutions, and as a **general proxy**, in relation to resolutions where you have not issued specific instructions - tick **both** the "**general proxy**" and "**special proxy**" boxes. Your proxy will then be authorised to vote specifically in accordance with your instructions in relation to those resolutions where specific instructions have been given, and generally in relation to resolutions where no specific instructions have been given, and other business of the meeting.

*My / *Our proxy, as named in Section B above, is entitled to act as *my I *our:

- general proxy**, to vote on *my /*our behalf generally, as *he / *she determines, subject to any specific instructions below, if applicable.

and I or

- special proxy**, to vote on *my I *our behalf specifically, in accordance with the following special instructions: (for each resolution for which you wish to give specific voting instructions, please tick one option only)

D. Signature

Dated:

Signature:

Name/Capacity #:

If an individual, insert full name

If a sole trader, insert in accordance with the following example: "full name, proprietor"

If a partnership, insert in accordance with the following example: "full name, partner of the firm named in Section A above"

If a company, pursuant to Regulations 5.6.28 and 5.6.31A of the Corporations Regulations 2001, it may only be represented by proxy or attorney respectively, or by a representative appointed under Section 250D of the Corporations Act 2001. The document appointing the proxy, attorney or representative must be in executed in accordance with Section 127 of the Corporations Act 2001, in which instance, insert in accordance with the following example: "full name, director I secretary I directorIsecretary of the company named in Section A above" *or* under the hand of some officer duly authorised in that capacity, and the fact that the officer is so authorised must be stated in accordance with the following example: "full name, for the company named in Section A above (duly authorised under the seal of the company)" - a copy of authority I power of attorney is to be annexed.

Certificate of Witness (to be completed only in special circumstances – see below)

*This certificate is only to be completed **only if the person giving the proxy is blind or incapable of writing**. The certificate of the creditor, contributory, debenture holder or member must not be witnessed by the person nominated as proxy.*

I

(name of witness)

of

(address of witness)

certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him/her before he/she signed or marked the instrument.

E. Submitting the Proxy

For a person to be eligible to attend and vote at the meeting on your behalf, this form is to be completed and submitted by no later than 10:00 AM on Thursday 2 February 2017, to:

KBL Mining Limited (Administrators Appointed)
c/- KPMG
GPO Box
SYDNEY NSW 2000
BARANGAROO
Email: AU-FMKBLMining@kpmg.com.au

Note: In accordance with Regulation 5.6.36A of the Corporations Regulations 2001, if a proxy is submitted by facsimile, the original document must be lodged within 72 hours after lodging the faxed copy.

Appendix – resolutions for Remuneration

This section details the resolutions that creditors will be asked to consider at the forthcoming meeting of creditors.

Resolution 5

Administrators' actual remuneration for the period 19 September 2016 to 13 January 2017	
Company:	<i>KBL Mining Limited</i> (Administrators Appointed) (Receivers and Managers Appointed)
Practitioner:	Stephen Vaughan and Matthew Woods
Administration type:	Voluntary Administration
Proposed resolution:	“That the Administrators’ remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) for the period 19 September 2016 to 13 January 2017 be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$506,846.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company.”

Resolution 6

Administrators' prospective remuneration for the period 14 January 2017 to 3 February 2017	
Company:	<i>KBL Mining Limited</i> (Administrators Appointed) (Receivers and Managers Appointed)
Practitioner:	Stephen Vaughan and Matthew Woods
Administration type:	Voluntary Administration
Proposed resolution:	“That the Administrators’ remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) for the period 14 January 2017 to 3 February 2017 as forecast be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$50,000.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company.”

Resolution 7

Should creditors resolve to enter into the proposed Deed of Company Arrangement, prospective remuneration for the period 4 February 2017 onwards to act as Deed Administrators

Company:	<i>KBL Mining Limited</i> <i>(Administrators Appointed)</i> <i>(Receivers and Managers Appointed)</i>	Period:	4 February 2017 onwards
Practitioner:	Stephen Vaughan and Matthew Woods	Firm:	KPMG
Administration type:	Deed Administrator		
Proposed resolution:	“That the Deed Administrators’ prospective remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed)(Deed Administrators Appointed) for the period 4 February 2017 onwards be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$200,000.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company or creditors trust established under the DOCA.”		

E: Expression of interest
advertisement

EXPRESSIONS OF INTEREST KBL Mining Limited

(Receivers and Managers Appointed)

(Administrators Appointed) (the Company)

The Receivers and Managers of the Company are seeking expressions of interest to acquire or recapitalise/restructure the Company and/or its assets. Details of key assets are set out below.

Mineral Hill Project (Condobolin region NSW, Australia 100% Owned)

Located 65 kilometres north of Condobolin in central NSW and comprising 19 granted mining leases enclosed by a single exploration licence. The tenement package covers some 340km² inclusive of exploration tenure adjacent to the primary project area.

With an open pit shallow reserve base of 263kt at 3.2g/t gold and 41g/t silver (inclusive of proven and probable ore reserve categories), and significant copper / gold lead and zinc underground resources, opportunity exists to capitalise on a proven processing plant for the realisation of expedient cash flow.

Highlights include:

- Open pit mining of remaining ore reserve in Pearse Pit (12,800oz Au & 228,400oz Ag) can recommence immediately, followed by the Pearse North deposit (14,500oz Au & 118,200oz Ag).
- Underground mining of SOZ base metal lodes can also commence in short order.
- The Mineral Hill site includes all infrastructure necessary to support a 330kt tonnes per annum mining operation including tails dams, workshops and offices.

KBL Sorby Hills Pty Ltd (Sorby Hills Project, Kununurra region, WA, Australia 75% JV Interest)

The Company's 100% owned subsidiary KBL Sorby Hills Pty Ltd has a 75% interest in an unincorporated joint venture and is registered as the holder of a 75% interest in each of five granted mining leases with environmental approval received for Stage 1 operations.

Considered one of the largest undeveloped, near surface silver-lead-zinc resources in Australia, Sorby Hills is located just 50 kilometres north of Kununurra in Western Australia. The project is poised for development with established infrastructure including proximity to the Wyndham port, water supply and sealed access.

An information memorandum will be available to interested parties upon execution of a confidentiality deed. Expressions of interest and enquiries should be directed to **Lauren McCann** at Ferrier Hodgson, email: kblminingsale@fh.com.au.

**Submissions of offers are requested by 5pm (AWST)
Friday 4th Nov. 2016.**

Ferrier Hodgson
GPO Box 2537, Perth, Western Australia, 6001
Level 28, 108 St Georges Terrace, PERTH WA 6000



For more information about Ferrier Hodgson visit: www.ferrierhodgson.com

F: Detailed company history

Timing	Key events
FY08	<ul style="list-style-type: none"> Incorporation and acquisition of key assets <p>KBL was incorporated as Kimberley Metals Limited on 29 February 2008 following the transfer of pre-development projects acquired from the CBH Resources Group ("CBH") at Mineral Hill, NSW (100%); Sorby Hills, WA (100%); and Constance Range, QLD (30%). It was disclosed in the 2008 Annual Report that KBL directors Mr James Wall, Mr Robert Besley, Profesor Pilmer, and Mr Lonergan had significant influence over CBH.</p> <p>The initial transaction valued the assets transferred from CBH to KBL at \$23.9m; the assets were sold to KBL on 19 May 2008 for \$22.9m with KBL providing \$18.5m in consideration to CBH, CBH transferring \$1.0m to KBL concurrently, and leaving \$5.4m outstanding to CBH as a related party at 30 June 2008. Additionally, KBL owed CBH \$6.3m which was activated on the decision to mine Mineral Hill; this amount was initially classified as non-current, or not payable within the next 12 months as at 30 June 2008.</p>
FY09	<ul style="list-style-type: none"> Initial operations and primary focus on re-commissioning Mineral Hill <p>The company's initial primary focus was re-commissioning the Mineral Hill mine site and identification of high-grade resources at that site. Mineral Hill was previously operated by Triako Resources Limited from 1989 to 2005 when the mine was placed on care and maintenance. Mineral Hill has an underlying resource comprising copper, lead, and zinc sulphides with associated silver and gold. KBL also held exploration interests at Sorby Hills, WA, and Constance Range, QLD.</p> <p>In 2009, KBL relied on CBH for support to commence operations which included office services and equipment totalling \$0.08m.</p>
FY10	<ul style="list-style-type: none"> ASX listing and official quotation <p>Kimberley Metals Limited was admitted to the Australian Stock Exchange, the ASX, on Tuesday 23 February 2010 with official quotation commencing on Thursday 25 February 2010. The Company raised a total of \$11.1m through the initial public offering.</p> <ul style="list-style-type: none"> Joint venture agreement reached for Sorby Hills <p>Subsequent to 30 June 2010, KBL agreed a two part agreement with Henan Yuguang Gold and Lead Co, Ltd ("Yuguang") under which Yuguang contributed \$5.2m under a placement of new shares in KBL and agreed to acquire a 25% interest in the project by contributing a further \$5.0m in expenditure at Sorby Hills for feasibility assessment of that project. All amounts were paid to KBL by 20 September 2010. KBL subsequently reported that the \$5.2m investment was to be utilised to bring the Pearse Gold Project at Mineral Hill into production, with the other \$5.0m going towards Sorby Hills feasibility.</p>
FY11 to FY14	<ul style="list-style-type: none"> Continuation of funding raises and development at the various sites, including copper production at Mineral Hill <p>Throughout FY11, FY12, FY13, the Company raised further amounts in the form of new shares and continued its focus on working towards being in a position to develop the mine at Mineral Hill. The Company reported it commenced refurbishment of existing</p>

Mineral Hill dual floatation and CIL processing plant in FY11 which could be used to produce copper concentrate.

In FY12, FY13 the Company commenced processing of ore at Mineral Hill with an initial focus on copper-concentrate. The concentrate, once mined and processed at Mineral Hill, was sent to Port Botany before being shipped to smelters. Throughout this same period, there were several exploration developments at Sorby Hills; however, the Sorby Hills project was not brought to operational phase.

In FY14 the Company appointed Brian Wesson as Managing Director of KBL. Additionally, the Company highlighted their intention to install a gold processing plant at Mineral Hill and their seeking further project financing in respect of Sorby Hills to enable site works commencement.

FY15

- **Refinancing of \$12.6m Capri loan to Kidman Resources and litigation in respect of event of default allegations by Kidman**
- **Refinancing of debt to Quintana through a mineral streaming facility totalling \$23.0m to be used to repay the Capri/Kidman Debt, and various other development initiatives**
- **Extension of the maturity date of KBLGA convertible notes and increase in interest rate approved**
- **Impairment charges recognised against the Constance Range project of \$1.4m bringing the value of the project to zero, and \$17.3m in respect of the Mineral Hill mine due to falling commodities prices**

At the commencement of FY15, KBL held a \$12.6m secured loan (\$10.0m plus interest at 13%p.a.) from Capri Trading Pty Ltd ("Capri") due for repayment in March 2015 ("the Capri Debt"), with Capri also being a large shareholder. Additionally, the Company had a further \$11.2m in convertible notes approaching due date for repayment being August 2016.

On **10 November 2014** the Company announced it had received two notices from Capri regarding the Capri Debt. The substance of the notices indicated that the Capri Debt was in the process of being sold to a new party. On **11 November 2014**, it was announced that the Capri Debt had been acquired by Kidman Resources ("Kidman") along with the Capri shareholding equating to c.9.7% of the shares in KBL. On **12 December 2014** Kidman announced it had notified KBL of an Event of Default in respect of the Kidman Debt.

On **23 December 2014** KBL announced it had agreed to a non-binding term sheet with a North-American based fund, which would see KBL receive US\$21.0m in the form of a prepay arrangement for metal to be produced from the Mineral Hill mine site.

On **6 January 2015** KBL held the meeting of noteholders previously adjourned from 10 December 2014 at which the Note Amendments were approved.

On **10 March 2015** KBL announced that a final agreement had been signed with Quintana for US\$23.0m on account of future sales of base metals, silver and gold to be produced at KBL's Mineral Hill Mine for the life of Mine. The purpose of the funds was to repay the Capri debt, install the CIL plant and remove overburden at Mineral Hill.

FY16

Additionally, at the same time, it was agreed to appoint three Quintana nominees to the KBL Board, bringing the KBL board to 7 directors.

On **17 April 2015** KBL announced the key manager for the CIL plant development would be Westech International Limited, an associated company with the Company's Managing Director, Brian Wesson. KBL advised in their announcement that Mr Wesson was not involved in the assessment of the proposals received for the role. At this time KBL indicated the installation cost to be c.\$8.0m for the CIL plant.

- **Installation of the gold processing CIL plant completes, behind schedule and over-budget**
- **First gold pour completed in early 2016, approximately two months later than forecast**
- **CIL plant in production from March 2016 in April and May 2016; however, severe weather in June 2016 caused the cessation of mining operations and production**
- **The Company entered revised payment arrangements with major service providers in respect of c.\$17.0m owing as at 31 December 2015**
- **On 14 June 2016, a major weather event caused the cessation of production and required remedial expenditure prior to re-commencement of operations**

KBL produced its first gold concentrate during September, with the product being available for sale in **October 2015**.

In **November 2015**, following completion of the CIL plant leaching section in October, the first ore was processed. During the initial ramp up period of production, KBL reported that recoveries were lower than expected.

Throughout the year, KBL continued with general exploration activities at Mineral Hill. This included development and preparation of the open-cut 'Pearse' site, clearing the site and commencing development for open-cut operation.

On **17 December 2015**, KBL reported to Shareholders and Noteholders that, despite reaching record tonnage production, complexities with the underground geology led to issues with grade. As such, Management announced that, to prepare for a successful underground production restart, they would alter their mining plan to include a diamond drilling program to improve the resource definition and mine plan. During this period, to enable cash flow generation, management outlined that they would move the original mine plan forward by bringing Pearse Open Cut 3 into production three months earlier than planned.

On **17 January 2016**, KBL announced that it had produced, smelted and sold the first 497 ounces of gold dore from Mineral Hill.

On **22 February 2016** KBL announced that it had entered into revised payment arrangements with four of its largest service providers who were owed some \$17.0m plus interest as at 31 December 2015. KBL indicated that cash flow issues had arisen as a result of the delay in finalising the installation of a floatation circuit concentrate filter, and the over budget and initial underperformance of the new CIL plant. The restructure of the amounts owing caused:

- certain of the amounts to be converted to equity in the form of new shares expected to be worth around \$2.9m to the suppliers;
- interest to accrue in respect of amount where no interest accrued previously; and
- revised repayment obligations for the balance of the outstanding amounts to be based on actual revenue received

Under the revised arrangements, all providers were expected to be paid by October 2016.

The Quintana Metals Purchase Agreement commenced on **16 March 2016** in accordance with the debt refinance that was agreed in FY15.

In the March 2016 quarterly activities report, issued on **26 April 2016**, Management discussed some of the challenges KBL was experiencing in terms of cash flow:

“The challenge now is to generate or source cash at the rate satisfactory to be able to satisfy long outstanding and demanding creditors. What makes the operational milestones even more impressive is that they were achieved in an environment where some suppliers stopped supply while funds were sourced to repay supplier outstanding amounts. The release of these results hopefully gives them comfort to extend further patience to the Company so it can limit its issue of new shares so as to avoid further pressure on its share price.”

In **May 2016**, KBL appointed a new Chief Operating Officer, Damian Spring to drive operations at Mineral Hill.

On **14 June 2016**, KBL issued an operations update and funding arrangements update in which Management detailed the results of a weather event on the evening of 4 June 2016 (“the 14 June Weather Event”). The weather event resulted in cracking below the haul access road which resulted in loss of access to the current ore mining zone. The notable flow on effect of that weather event was that Management expected that the remediation of the haul road would result in a 4 to 5 week cessation of ore being processed. Initial estimates were that remediation would costs approximately \$1.0m.

As a result of the 14 June Weather Event and the corresponding cessation of mining at Pearse, KBL’s cash flow became stretched. As a result, Management worked to agree a deferral of payment terms with its largest service provider and secured creditor in respect of \$6.0m outstanding. Under the deferral agreement, the amount would become payable upon the earlier of either receipt of funds from the proposed capital raising (as assumed in KBL’s cash flow forecast released on 29 February 2016 with the half-year results) or 29 July 2016. KBL engaged APP Securities Pty Ltd to broker the capital raising.

On **30 June 2016**, KBL issued a prospectus in respect of a pro-rata non-renounceable issue of Entitlement Options at an offer price of \$0.001 for every fully paid shareholder.

FY17

- **As a result of a number of factors, Management outlined to shareholders the critical need to raise a further \$6.0m to enable payment of creditors and funding for further drilling**

- **The Company completed an issuance of Entitlement Options at an offer price of \$0.001 for every shareholder; the issuance subscription was oversubscribed**
- **KBL's remaining directors resolve to appoint Matthew Woods and Stephen Vaughan as Voluntary Administrators on 8 September 2016**

On **7 July 2016**, Management prepared a letter to shareholders outlining that, in addition to the requirement of raising a further \$6.0m (as outlined in announcement on 22 February 2016), the market capitalisation of KBL was now equal to that amount. Management detailed that the requirement for the new equity raising was to:

- provide working capital to enable payment of liabilities to creditors; and
- to provide for further drilling at Mineral Hill.

Management explicitly noted that, as a result of a combination of the over-budget CIL plant delivery, poor underground mining production in FY15, the 14 June Weather Event, and the resultant delay to production, the proposed funding was critical.

On **13 June 2016**, Management advised that remedial work in respect of the hauling road wall was complete and that re-commencement could occur. On **2 August 2016**, Management announced that revenue generation had recommenced.

On **1 August 2016** Management outlined the results of the options entitlements offer which was announced on 30 June 2016. KBL received applications in excess of the maximum offer (949m options).

On **7 September 2016** three of KBL's directors tendered their resignation to the board, being Laurence Roulston, Oliver Rodz, and Charles Brown. All three of these directors were employed by secured creditor, Quintana.

On **8 September 2016** KBL's remaining directors, James Wall, Robert Besley, and Gregory Starr, asked Matthew Woods and Stephen Vaughan to attend a board meeting to consider the way forward for KBL. It was resolved by the directors at that meeting to appointment Matthew Woods and Stephen Vaughan as Voluntary Administrators of KBL.

G: Voluntary administration: a guide for creditors

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ASIC

Australian Securities & Investments Commission

INFORMATION SHEET 74

Voluntary administration: a guide for creditors

If a company is in financial difficulty, it can be put into voluntary administration.

This information sheet provides general information for unsecured creditors of companies in voluntary administration.

Who is a creditor?

You are a creditor of a company if the company owes you money. Usually, a creditor is owed money because they have provided goods or services, or made loans to the company.

An employee owed money for unpaid wages and other entitlements is a creditor.

A person who may be owed money by the company if a certain event occurs (e.g. if they succeed in a legal claim against the company) is also a creditor, and is sometimes referred to as a 'contingent' creditor. There are generally two categories of creditor: secured and unsecured:

- A secured creditor is someone who has a 'charge', such as a mortgage, over some or all of the company's assets, to secure a debt owed by the company. Lenders usually require a charge over company assets when they provide a loan.
- An unsecured creditor is a creditor who does not have a charge over the company's assets.

Employees are a special class of unsecured creditors. Their outstanding entitlements are usually paid in priority to the claims of other unsecured creditors. If you are an employee, see ASIC's information sheet INFO 75 *Voluntary administration: a guide for employees*.

The purpose of voluntary administration

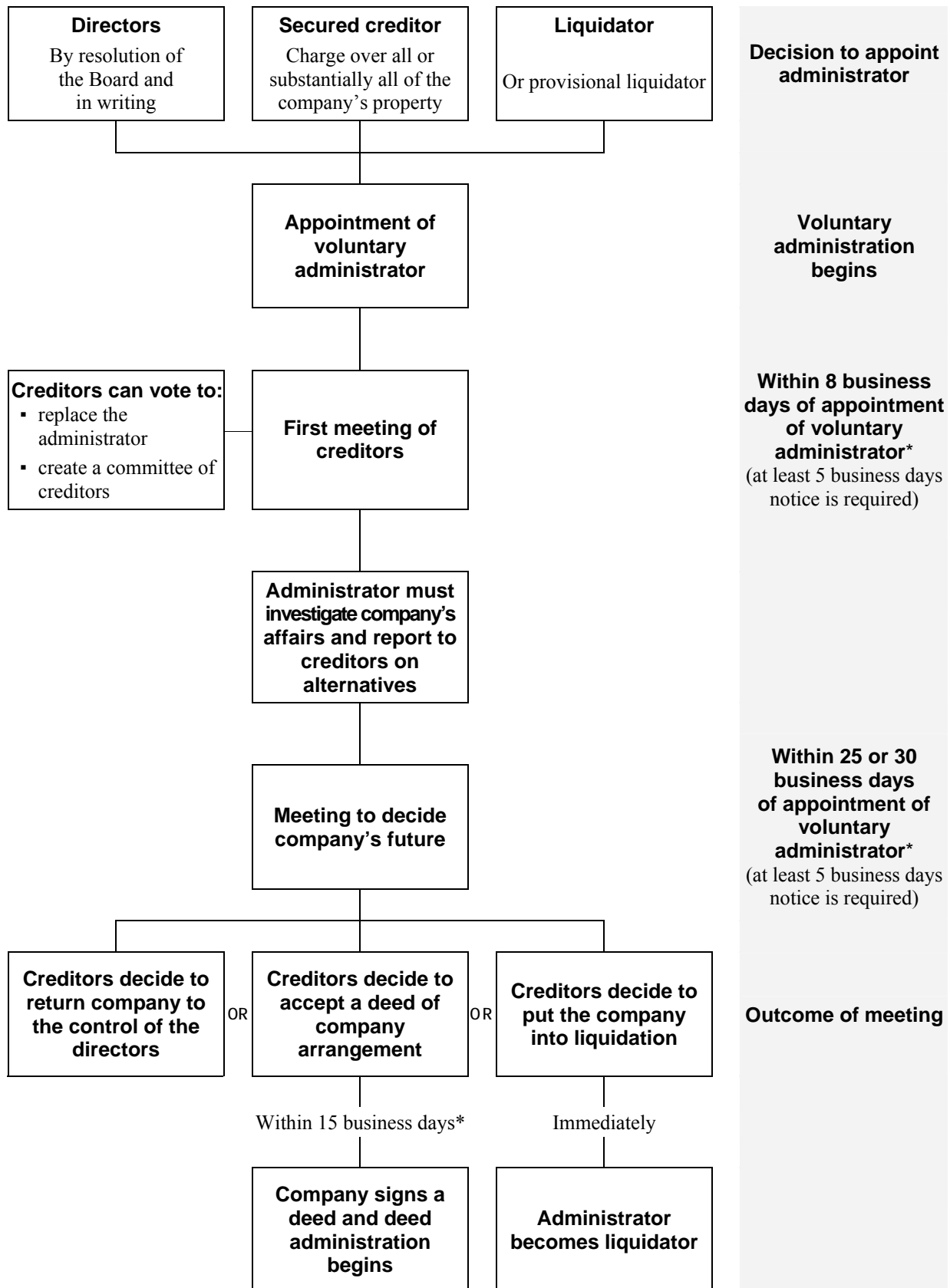
Voluntary administration is designed to resolve a company's future direction quickly (Figure 1 summarises the process). An independent and suitably qualified person (the voluntary administrator) takes full control of the company to try to work out a way to save either the company or its business.

If it isn't possible to save the company or its business, the aim is to administer the affairs of the company in a way that results in a better return to creditors than they would have received if the company had instead been placed straight into liquidation. A mechanism for achieving these aims is a deed of company arrangement.

A voluntary administrator is usually appointed by a company's directors, after they decide that the company is insolvent or likely to become insolvent. Less commonly, a voluntary administrator may be appointed by a liquidator, provisional liquidator, or a secured creditor.

Important note: This information sheet contains a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances. You will need a qualified professional adviser to take into account your particular circumstances and to tell you how the law applies to you.

Figure 1: The voluntary administration process



* Unless the court allows an extension of time.

A company in voluntary administration may also be in receivership: see ASIC information sheet INFO 54 *Receivership: a guide for creditors*.

The voluntary administrator's role

After taking control of the company, the voluntary administrator investigates and reports to creditors on the company's business, property, affairs and financial circumstances, and on the three options available to creditors. These are:

- end the voluntary administration and return the company to the directors' control
- approve a deed of company arrangement through which the company will pay all or part of its debts and then be free of those debts, or
- wind up the company and appoint a liquidator.

The voluntary administrator must give an opinion on each option and recommend which option is in the best interests of creditors.

In doing so, the voluntary administrator tries to work out the best solution to the company's problems, assesses any proposals put forward by others for the company's future, and compares the possible outcomes of the proposals with the likely outcome in a liquidation.

A creditors' meeting is usually held about five weeks after the company goes into voluntary administration to decide on the best option for the company's future. In complex administrations, this meeting may be held later if the court consents.

The voluntary administrator has all the powers of the company and its directors. This includes the power to sell or close down the company's business or sell individual assets in the lead up to the creditors' decision on the company's future.

Another responsibility of the voluntary administrator is to report to ASIC on possible offences by people involved with the company.

Although the voluntary administrator may be appointed by the directors, they must act fairly and impartially.

Effect of appointment

The effect of the appointment of a voluntary administrator is to provide the company with breathing space while the company's future is resolved. While the company is in voluntary administration:

- unsecured creditors can't begin, continue or enforce their claims against the company without the administrator's consent or the court's permission
- owners of property (other than perishable property) used or occupied by the company, or people who lease such property to the company, can't recover their property
- except in limited circumstances, secured creditors can't enforce their charge over company property
- a court application to put the company in liquidation can't be commenced, and
- a creditor holding a personal guarantee from the company's director or other person can't act under the personal guarantee without the court's consent.

Voluntary administrator's liability

Any debts that arise from the voluntary administrator purchasing goods or services, or hiring, leasing, using or occupying property, are paid from the available assets as costs of the voluntary administration. If there are insufficient funds available from asset realisations to pay these costs, the voluntary administrator is personally liable for the shortfall. To have the benefit of this protection, you should ensure you receive a purchase order authorised in the manner advised by the voluntary administrator.

The voluntary administrator must also decide whether to continue to use or occupy property owned by another party that is held or occupied by the company at the time of their appointment.

Within five business days after their appointment, the voluntary administrator must notify the owner of property whether they intend to continue to occupy or use the property. If the voluntary administrator decides to continue to do so, they will be personally liable for any rent or amounts payable arising after the end of the five business days.

Amounts that become due to employees after the date of the appointment of the voluntary administrator have a priority claim against the company's assets as a cost of the administration. However, the voluntary administrator does not become personally liable for such amounts unless the voluntary administrator adopts employees' contracts of employment or enters into new employment contracts with them.

Creditors' meetings

Two meetings of creditors must be held during the voluntary administration.

First creditors' meeting

The voluntary administrator must call the first creditors' meeting within eight business days after the voluntary administration begins.

At least five business days before the meeting, the voluntary administrator must notify as many creditors as practical in writing and advertise the meeting. The advertisement must appear in a newspaper circulating in the states or territories in which the company has its registered office or carries on its business.

The voluntary administrator must send to creditors, with the notice of meeting, declarations about any relationships they may have, or indemnities they have been given, to allow creditors to consider the voluntary administrator's independence and make an informed decision about whether they want to replace them with another voluntary administrator of the creditors' choice.

The purpose of the first meeting is for creditors to decide two questions:

- whether they want to form a committee of creditors, and, if so, who will be on the committee, and
- whether they want the existing voluntary administrator to be removed and replaced by a voluntary administrator of their choice.

The role of a committee of creditors is to consult with the voluntary administrator about matters relevant to the voluntary administration and receive and consider reports from the voluntary administrator. The committee can also require the voluntary administrator to report to them about the voluntary administration. It may also approve the voluntary administrator's fees.

A creditor who wishes to nominate an alternative voluntary administrator must approach a registered liquidator before the meeting and get a written consent from that person that they would be prepared to act as voluntary administrator. The proposed alternative administrator should give to the meeting declarations about any relationships they may have, or indemnities they have been given. The voluntary administrator will only be replaced if the resolution to replace them is passed by the creditors at the meeting.

To be eligible to vote at this meeting, you must lodge details of your debt or claim with the voluntary administrator (discussed further below).

This meeting can be chaired by either the voluntary administrator or one of their senior staff.

Second creditors' meeting (to decide the company's future)

After investigating the affairs of the company and forming an opinion on each of the three options available to creditors (outlined above), including an opinion as to which option is in the best interests of creditors, the administrator must call a second creditors' meeting. At this meeting, creditors are given the opportunity to decide the company's future.

This meeting is usually held about five weeks after the company goes into voluntary administration (six weeks at Christmas and Easter).

However, in complex voluntary administrations, often more time is needed for the voluntary administrator to be in a position to report to creditors. In these circumstances, the court can approve an extension of time to hold the meeting.

The voluntary administrator must chair this meeting.

In preparation for the second meeting, the voluntary administrator must send creditors the following documents at least five business days before the meeting:

- a notice of meeting
- the voluntary administrator's report, and
- a statement about any proposals for a deed of company arrangement.

These will be accompanied by:

- a claim form (usually a 'proof of debt' form), and
- a proxy voting form.

The meeting must also be advertised.

Either or both the first and second creditors' meeting may be held using telephone or videoconferencing facilities.

Voluntary administrator's report

You should read the voluntary administrator's report before you attend the second meeting or decide whether you want to appoint someone else to vote on your behalf at that meeting. This report must give sufficient information to explain the company's business, property and affairs, and the reasons for the current financial situation, to enable you to make an informed decision about the company's future.

The report should also provide an analysis of any proposals for the future of the company, including the possible outcomes, as well as a comparable estimate of what would be available for creditors in a liquidation.

Finally, the report should include the voluntary administrator's opinion on each of the options available to creditors, as well as an opinion on which is in the best interests of creditors. As noted above, the options are:

- end the voluntary administration and return the company to the directors' control
- approve a deed of company arrangement (if one is proposed), or
- put the company into liquidation.

Voluntary administrator's statement about deed

If there are proposals for a deed of company arrangement, the voluntary administrator must provide creditors with a statement giving enough details of each proposal to enable creditors to make an informed decision. The types of proposals allowed in a deed of company arrangement are very flexible.

Typically, a proposal will provide for the company to pay all or part of its debts, possibly over time, and then be free of those debts. It will often provide for the company to continue trading. How these things will happen varies from case to case, as the terms allowed in a deed of company arrangement are also very flexible. The contents of a deed of company arrangement are discussed below.

You should insist on being provided with as much information about the terms of the proposed deed as possible, before the creditors' meeting. The minimum contents of a deed of company arrangement, discussed below, provide a guide on the information you might request if it hasn't already been provided.

You should also contact the voluntary administrator before the meeting if you believe the report to creditors does not contain sufficient information to enable you to make a decision about the company's future.

Voting at a creditors' meeting

To vote at any creditors' meeting you must lodge details of your debt or claim with the voluntary administrator. Usually, the voluntary administrator will provide you with a form called a 'proof of debt' to be completed and returned before the meeting.

The chairperson of the meeting decides whether or not to accept the debt or claim for voting purposes. The chairperson may decide that a creditor does not have a valid claim or the amount of the debt cannot be determined with any certainty at the date of the meeting. In this case, they may not allow the creditor to vote at all, or only to vote for a debt of \$1. This decision is only for voting purposes. It is not relevant to whether a creditor will receive a dividend.

An appeal against a decision by the chairperson to accept or reject a proof of debt or claim for voting purposes may be made to the court within 14 days after the decision.

A secured creditor is entitled to vote for the full amount of their debt without having to deduct the value of their security.

Voting by proxy

You may appoint a proxy to attend and vote at a meeting on your behalf. A proxy can be any person who is at least 18 years old. Creditors who are companies will have to nominate a person as proxy so that they can participate in the meeting. This is done using a form sent out with the notice of meeting. The completed proxy form must be provided to the voluntary administrator before the meeting. You can fax the proxy form to the voluntary administrator, but must lodge the original within 72 hours of sending the faxed copy.

An electronic form of proxy may be used if the liquidator allows electronic lodgement, provided there is a way to authenticate the appointment of the proxy (e.g. by scanning and e-mailing a signature or using a digital signature).

You can specify on the proxy form how the proxy is to vote on a particular resolution and the proxy must vote in accordance with that instruction. This is called a 'special proxy'. Alternatively, you can leave it to the proxy to decide how to vote on each of the resolutions put before the meeting. This is called a 'general proxy'.

You can appoint the chairperson to represent you either through a special or general proxy. The voluntary administrator or one of their partners or employees must not use a general proxy to vote in favour of a resolution approving payment of the voluntary administrator's fees.

Manner of voting

A vote on any resolution put to a creditors' meeting may be taken by creditors stating aloud their agreement or disagreement, or by a show of hands. Sometimes a more formal voting procedure called a 'poll' is taken.

If voting is by show of hands or by verbally signalling agreement, the resolution is passed if a majority of those present indicate agreement. It is up to the chairperson to decide if this majority has been reached.

After the vote, the chairperson must tell those present whether the resolution has been passed or lost. If the chairperson is unable to determine the outcome of a resolution on a show of hands, they may decide to conduct a poll.

Alternatively, a poll can be demanded by at least two people present who are entitled to vote, or someone who holds more than 10% of the votes of those entitled to vote at the meeting. The chairperson will determine how this poll is taken.

If you intend to demand that a poll be taken, you must do so before, or as soon as, the chairperson has declared the result of a vote taken by show of hands or voices.

When a poll is conducted, a resolution is passed if:

- more than half the number of creditors who are voting (in person or by proxy) vote in favour of the resolution, and
- those creditors who are owed more than half of the total debt owed to creditors at the meeting vote in favour of the resolution.

This is referred to as a 'majority in number and value'. If a majority in both number and value is not reached under a poll (often referred to as a deadlock), the chairperson has a casting vote.

Chairperson's casting vote

When a poll is taken and there is a deadlock, the chairperson may use their casting vote either in favour of or against the resolution. The chairperson may also decide not to use their casting vote.

The chairperson must inform the meeting, and include in the written minutes of meeting that are lodged with ASIC, of the reasons why they cast their vote in a particular way or why they chose not to use their casting vote.

If you are dissatisfied with how the chairperson exercised their casting vote or failed to use their casting vote, you may apply to the court for a review of the chairperson's decision. The court may vary or set aside the resolution or order that the resolution is taken to have been passed.

Votes of related creditors

If directors and shareholders, their spouses and relatives and other entities controlled by them are creditors of the company, they are entitled to attend and vote at creditors' meetings, including the meeting to decide the company's future.

If a resolution is passed, or defeated, based on the votes of these related creditors, and you are dissatisfied with the outcome, you may apply to the court for the resolution to be set aside and/or for a fresh resolution to be voted on without related creditors being entitled to vote. Certain criteria must be met before the court will make such an order (e.g. the original result of the vote being against the interests of all or a class of creditors).

Deciding how to vote at the second meeting

How you vote at the meeting on the three possible options, including any competing proposals for a deed of company arrangement, is a commercial decision based on your assessment of the company and its future prospects, and your personal circumstances. The information provided by the voluntary administrator, including opinions expressed, will assist you. However, you are not obliged to accept the administrator's recommendation.

If you do not consider that you have been given enough information to decide how to vote, and particularly whether to vote for any deed proposal, you can ask for a resolution to be put to creditors that the meeting be adjourned (up to a maximum of 45 business days in total) and for the administrator to provide more information. You must make this request before a vote on the company's future. This resolution must be passed for the adjournment to take place.

Creditors also have the right when a deed of company arrangement is proposed and considered at the meeting to negotiate specific requirements into the terms of the deed, including, for example, how the deed administrator is to report to them on the progress of the deed.

Any request to vary the deed proposal to include such requirements should be made before the deed proposal is voted on.

Minutes of meeting

The chairperson must prepare minutes of each meeting and a record of those who were present at each meeting.

The minutes must be lodged with ASIC within 14 days of the meeting. A copy may be obtained from any ASIC Business Centre on payment of the relevant fee.

Company returned to directors

If the company is returned to the directors, they will be responsible for ensuring that the company pays its outstanding debts as they fall due. It is only in very rare circumstances that creditors will resolve to return the company to the control of its directors.

Liquidation

If creditors resolve that the company go into liquidation, the voluntary administrator becomes the liquidator unless creditors vote at the second meeting to appoint a different liquidator of their choice. The liquidation proceeds as a creditors' voluntary liquidation with any payments of dividends to creditors made in the order set out in the *Corporations Act 2001* (Corporations Act). To find out more, see ASIC information sheet INFO 45 *Liquidation: a guide for creditors*.

Deed of company arrangement

If creditors vote for a proposal that the company enter a deed of company arrangement, the company must sign the deed within 15 business days of the creditors' meeting, unless the court allows a longer time. If this doesn't happen, the company will automatically go into liquidation, with the voluntary administrator becoming the liquidator.

The deed of company arrangement binds all unsecured creditors, even if they voted against the proposal. It also binds owners of property, those who lease property to the company and secured creditors, if they voted in favour of the deed. In certain circumstances, the court can also order that these people are bound by the deed even if they didn't vote for it. The deed of company arrangement does not prevent a creditor who holds a personal guarantee from the company's director or another person taking action under the personal guarantee to be repaid their debt.

Contents of the deed

Whatever the nature of the deed of company arrangement, it must contain certain information, including:

- the name of the deed administrator
- the property that will be used to pay creditors
- the debts covered by the deed and the extent to which those debts are released
- the order in which the available funds will be paid to creditors (the deed of company arrangement must ensure that employees have a priority in payment of outstanding employee entitlements unless the eligible employees agree by a majority in both number and value to vary this priority)
- the nature and duration of any suspension of rights against the company
- the conditions (if any) for the deed to come into operation
- the conditions (if any) for the deed to continue in operation, and
- the circumstances in which the deed terminates.

There are also certain terms that will be automatically included in the deed, unless the deed says they will not apply. These are called the 'prescribed provisions'. They include such matters as the powers of the deed administrator, termination of the deed and the appointment of a committee of creditors (called a 'committee of inspection').

The voluntary administrator's report should tell you which prescribed provisions are proposed to be excluded or varied, and, if varied, how.

Monitoring the deed

It is the role of the deed administrator to ensure the company (or others who have made commitments under the deed) carries through these commitments. The extent of the deed administrator's ongoing role will be set out in the deed.

Creditors can also play a role in monitoring the deed. If you are concerned that the obligations of the company (or others) under the deed are not being met, you should take this up promptly with the deed administrator. Matters that may give rise for concern include deadlines for payments or other actions promised under the deed being missed.

Creditors also have the right when a deed of company arrangement is proposed and considered at the second meeting to negotiate consequences of failure to meet such deadlines into the terms of the deed. Any request to vary the deed proposal to include such consequences should be made before the deed proposal is voted on.

The deed administrator must lodge a detailed list of receipts and payments with ASIC every six months.

Varying the deed

The deed administrator can call a creditors' meeting at any time to consider a proposed variation to the deed or a resolution to terminate the deed. The proposed resolutions must be set out in the notice of meeting sent to creditors.

Creditors owed at least 10% in value of all creditor claims can, by written request, also require the deed administrator to call such a meeting. However, it is unusual for this to happen, as those who make the request must pay the costs of calling and holding the meeting.

Payment of dividends under a deed

The order in which creditor claims are paid depends on the terms of the deed. Sometimes the deed proposal is for creditor claims to be paid in the same priority as in a liquidation. Other times, a different priority is proposed.

The deed must ensure employee entitlements are paid in priority to other unsecured creditors unless eligible employees have agreed to vary their priority.

Before you decide how to vote at the creditors' meeting, make sure you understand how the deed will affect the priority of payment of your debt or claim.

You may wish to seek independent legal advice if the deed proposes a different priority to that in a liquidation, or if creditors approve such a deed.

Establishing your claim under a deed

How debts or claims are dealt with under a deed of company arrangement depends on the deed's terms. Sometimes the deed incorporates the Corporations Act provisions for dealing with debts or claims in a liquidation.

Before any dividend is paid to you for your debt or claim, you will need to give the deed administrator sufficient information to prove your debt. You may be required to complete a claim form (this is called a 'proof of debt' in a liquidation). You should attach copies of any relevant invoices or other supporting documents to the claim form, as your debt or claim may be rejected if there is insufficient evidence to support it.

If a creditor is a company, the claim form should be signed by a person authorised by the company to do so.

When submitting a claim, you may ask the deed administrator to acknowledge receipt of your claim and advise if any further information is needed.

If the deed administrator rejects your claim after you have taken the above steps, first contact the deed administrator. You may also wish to seek your own legal advice. This should be done promptly. Depending on the terms of the deed, you may have a limited time in which to take legal action to challenge the decision.

If you have a query about the timing of the payment, discuss this with the deed administrator.

How a deed comes to an end

A deed may come to an end because the obligations under the deed have all been fulfilled and the creditors have been paid. Alternatively, the deed may set out certain conditions where the deed will automatically terminate.

The deed may also provide that the company will go into liquidation if the deed terminates due to these conditions being met.

Another way for the deed to end is if the deed administrator calls a meeting of creditors, and creditors vote to end the deed. This may occur because it appears unlikely that the terms of the deed can be fulfilled.

At the same time, creditors may be asked to vote to put the company into liquidation.

The deed may also be terminated if a creditor, the company, ASIC or any other interested person applies to the court and the court is satisfied that:

- creditors were provided false and misleading information on which the decision to accept the deed proposal was made
- the voluntary administrator's report left out information that was material to the decision to accept the deed proposal

- the deed cannot proceed without undue delay or injustice, or
- the deed is unfair or discriminatory to the interests of one or more creditors or against the interests of creditors as a whole.

If the court terminates the deed as a result of such an application, the company automatically goes into liquidation.

Approval of administrator's fees

Both a voluntary administrator and deed administrator are entitled to be paid for the work they perform. Generally, their fees will be paid from available assets, before any payments are made to creditors. They may have also arranged for a third party to pay any shortfall in their fees if there aren't enough assets.

The fees cannot be paid until the amount has been approved by a creditors' committee, creditors or the court. Creditors, the voluntary administrator/deed administrator or ASIC can ask the court to review the amount of fees approved.

If you are asked to approve fees, either at a meeting of a creditors' committee or in a general meeting of creditors, the voluntary administrator or deed administrator must give you, at the same time as the notice of the meeting, a report that contains sufficient information for you to assess whether the fees claimed are reasonable. This report should be in simple language and set out:

- a description of the major tasks performed
- the costs of completing these tasks, and
- such other information that will assist in assessing the reasonableness of the fees claimed.

For further information, see ASIC's information sheet INFO 85 *Approving fees: a guide for creditors*. If you are in any doubt about how the fees were calculated, ask for more information.

Apart from fees, the voluntary administrator and deed administrator are entitled to reimbursement for out-of-pocket expenses that have arisen in carrying out their administration. This reimbursement does not usually require approval.

Creditors' committee

A creditor's committee may be formed, following a vote of creditors, to consult with the voluntary administrator or deed administrator and receive reports on the conduct of their administration. A creditors' committee can also approve the administrator's fees.

In a voluntary administration, this committee is called a 'committee of creditors' and may be formed at the first creditors' meeting. While the company is under a deed of company arrangement, it is called a 'committee of inspection'.

All creditors, including a representative of the company's employees, are entitled to stand for committee membership to represent the interests of all creditors. However, to operate efficiently, the committee should not be too large.

If a creditor is a company, the creditor can nominate a director or employee to represent it on the committee.

Directors and voluntary administration

Directors cannot use their powers while the company is in voluntary administration. They must help the voluntary administrator, including providing the company's books and records, and a report about the company's business, property, affairs and financial circumstances, as well as any further information about these that the voluntary administrator reasonably requires.

If the company goes from voluntary administration into a deed of company arrangement, the directors' powers depend on the deed's terms. When the deed is completed, the directors regain full control, unless the deed provides for the company to go into liquidation on completion.

If the company goes from voluntary administration or a deed of company arrangement into liquidation, the directors cannot use their powers. If creditors resolve that the voluntary administration should end, control of the company goes back to the directors.

Queries and complaints

You should first raise any queries or complaints with the voluntary administrator or deed administrator. If this fails to resolve your concerns, including any concerns about their conduct, you can lodge a complaint with ASIC at www.asic.gov.au/complain, or write to:

ASIC Complaints
PO Box 9149
TRARALGON VIC 3844

ASIC will usually not become involved in matters of commercial judgement by a voluntary administrator or deed administrator. Complaints against companies and their officers can also be made to ASIC. For other enquiries, email ASIC through infoline@asic.gov.au, or call ASIC's Infoline on 1300 300 630 for the cost of a local call.

To find out more

For an explanation of terms used in this information sheet, see ASIC information sheet INFO 41 *Insolvency: a glossary of terms*. For more on external administration, see ASIC's related information sheets at www.asic.gov.au/insolvencyinfosheets:

- INFO 75 *Voluntary administration: a guide for employees*
- INFO 45 *Liquidation: a guide for creditors*
- INFO 46 *Liquidation: a guide for employees*
- INFO 54 *Receivership: a guide for creditors*
- INFO 55 *Receivership: a guide for employees*
- INFO 43 *Insolvency: a guide for shareholders*
- INFO 42 *Insolvency: a guide for directors*
- INFO 84 *Independence of external administrators: a guide for creditors*
- INFO 85 *Approving fees: a guide for creditors*

These are also available from the Insolvency Practitioners Association (IPA) website at www.ipaa.com.au. The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

H: Declaration of Independent, Relevant Relationships, and Indemnities

Declaration of Independence, Relevant Relationships and Indemnities

Section 436DA(5) of the Corporations Act 2001 (the "Act")

12 September 2016

KBL Mining Limited (Administrators Appointed) ACN: 129 954 365 ("the Company")

This document requires the Practitioners appointed to an insolvent entity to make declarations as to:

- A. their independence generally;
- B. relationships, including
 - i the circumstances of the appointment;
 - ii any relationships with the Company and others within the previous 24 months;
 - iii any prior professional services for the Company within the previous 24 months;
 - iv. that there are no other relationships to declare; and
- C. any indemnities given, or up-front payments made, to the Practitioner.

This declaration is made in respect of ourselves, our partners, KPMG Australia partnership and related parties covered by the extended definition of firm.

A. Independence

We, Matthew Woods and Stephen Vaughan of the KPMG Australia partnership ("KPMG Australia"), care of KPMG Level 38 Tower Three, 300 Barangaroo Avenue, Sydney New South Wales 2000 have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Joint and Several Administrators of the Company in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

B. Declaration of Relationships

i. Circumstances of appointment

This appointment was referred to us by the Company's solicitor, Macaire Bromley of DibbsBarker.

We believe that this referral does not result in a conflict of interest or duty because the referral was unconditional; and referrals from solicitors, business advisors and accountants are commonplace and do not impact on our independence in carrying out our duties as Administrators.

On the morning of 7 September 2016, Ms Bromley of DibbsBarker telephoned one of our partners, Mr Carl Gunther and advised that she had been asked by the Company to contact KPMG about a possible appointment of administrators and whether we would consider acting and consenting to an appointment.

We had a telephone conversation with Ms Bromley and a subsequent call with Ms Bromley and Mr Greg Starr, the managing director during which we were apprised of the circumstances facing the Company and we discussed a possible appointment. That afternoon we forwarded a written

consent to act. We did not provide any advice and did not receive any remuneration in relation to these telephone conversations.

On the morning of 8 September 2016 Ms Bromley called Mr Patrick Lynch of our staff and advised that, in light of further developments overnight, the board of directors intended to hold a meeting that morning to appoint us.

We attended the board meeting at 9.45am at the Company offices at North Sydney, Stephen Vaughan in person and Matthew Woods by telephone. During that meeting the board resolved to appoint us as administrators.

In our opinion, these discussions and the meeting do not affect our independence for the following reasons:

- A company will generally need to approach an insolvency practitioner for advice on the insolvency or likely insolvency of their company before the board resolves to appoint a Practitioner as administrator under s 436A of the Corporations Act
- The information provided during discussions and the meeting were restricted to:
 - the financial situation of the Company;
 - the solvency of the Company;
 - consequences of insolvency; and
 - alternative courses of action available to the Company in the case of insolvency.

We have provided no other information or advice to the Company and its advisors prior to our appointment beyond that outlined in this DIRRI.

ii. Relevant Relationships (excluding Professional Services to the Insolvent)

We, or a member of our firm, have, or have had within the preceding 24 months, have undertaken professional services engagements for secured creditors of the Companies. These engagements can be summarised as follows:

Name	Nature of relationship	Reasons
Secured creditors of the Company who have a registered security interest on the Personal Property Security Register (Refer the Schedule for list of creditors) ("PPSA Creditors")	KPMG Australia has an ongoing business relationship and provides a number of services including Audit, Tax and Advisory to many of the PPSA Creditors or their international affiliates We specifically disclose that KPMG Australia has no ongoing business relationship with any creditor holding a registered security interest over all or substantially the whole of the Company's property.	I believe that this relationship does not result in a conflict of interest or duty because: <ul style="list-style-type: none"> • Prior to our appointment KPMG Australia has not undertaken any work for any of the PPSA Creditors in respect of the Company. • Any engagements between KPMG Australia and the PPSA Creditors or their international affiliates (which includes audit, tax and advisory services) will not influence our ability to fully comply with the statutory and fiduciary obligations associated with the liquidation of the Companies in an objective and impartial manner.

iii. Prior Professional services to the Insolvent

Neither we, nor our firm, have provided any professional services to the Company in the previous 24 months.

iv. No other relevant relationships to disclose

There are no other known relevant relationships, including personal, business and professional relationships, from the previous 24 months with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company or any person or entity that has security over the whole or substantially whole of the Company's property that should be disclosed.

C. Indemnities and up-front payments

We have not been indemnified in relation to this administration, other than any indemnities that we may be entitled to under statute and we have not received any up-front payments in respect of our remuneration or disbursements.

Dated: 12 September 2016



.....
Matthew Woods



.....
Stephen Vaughan

Note:

1. If circumstances change, or new information is identified, we are required under the Corporations Act 2001 and the ARITA Code of Professional Practice to update this Declaration and provide a copy to creditors with our next communication as well as table a copy of any replacement declaration at the next meeting of the insolvent's creditors.
2. Any relationships, indemnities or up-front payments disclosed in the DIRRI must not be such that the Practitioner is no longer independent. The purpose of components B and C of the DIRRI is to disclose relationships that, while they do not result in the Practitioner having a conflict of interest or duty, ensure that creditors are aware of those relationships and understand why the Practitioner nevertheless remains independent.

I: Mining tenement listing

Tenement interests		
Description	Tenement number	% interest
Sorby Hills		
Kununurra – WA	M80/196	75%
Kununurra – WA	M80/197	75%
Kununurra – WA	M80/285	75%
Kununurra – WA	M80/286	75%
Kununurra – WA	M80/287	75%
Mineral Hill		
Condobolin - NSW	EL1999	100%
Condobolin - NSW	EL8334	100%
Condobolin - NSW	EL6064	100%
Condobolin - NSW	ML332	100%
Condobolin - NSW	ML333	100%
Condobolin - NSW	ML334	100%
Condobolin - NSW	ML335	100%
Condobolin - NSW	ML336	100%
Condobolin - NSW	ML337	100%
Condobolin - NSW	ML338	100%
Condobolin - NSW	ML339	100%
Condobolin - NSW	ML340	100%
Condobolin - NSW	ML5240	100%
Condobolin - NSW	ML5267	100%
Condobolin - NSW	ML5278	100%
Condobolin - NSW	ML5499	100%
Condobolin - NSW	ML5261	100%
Condobolin - NSW	ML5632	100%
Condobolin - NSW	ML6329	100%
Condobolin - NSW	ML6365	100%
Condobolin - NSW	ML1695	100%
Condobolin - NSW	ML1712	100%
Constance Range		
Mt Isa – QLD	EPM14479	30%

Source: FY15 Annual Report; KPMG 27867709v8 – 16.2.5.2 s439A workings / Tenement interests

J: Letters from Directors

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20 January 2017

Mr Matthew Woods
Joint and Several Administrator of KBL Mining Ltd
(Administrators Appointed)
(Receivers and Managers Appointed)
KPMG
Level 38, Tower Three, 300 Barangaroo Avenue
Sydney NSW 2000

By Email

Dear Mr Woods

KBL Mining Ltd (Administrators Appointed) (Receivers and Managers Appointed) (ACN 129 954 365) (KBL)

We refer to previous correspondence concerning the above matter, and in particular to your letter of 11 January 2017. As foreshadowed in our letter of 19 January 2017 we now respond to your letter of 11 January 2017 in relation to the question of the date of KBL's solvency and possible consequential insolvent trading claims.

In this letter we adopt the terms defined in our previous correspondence, unless indicated otherwise.

Date of insolvency

In your letter of 8 December 2016 you state, among other things:

Preliminary findings from my investigations indicate that KBL may have traded whilst insolvent from as early as 1 February 2016, or potentially earlier depending on the outcome of my further investigations. I consider there may be grounds for a claim against each of the KBL directors in respect to losses caused by insolvent trading during this period which total in the region of \$15m.

In that letter Quintana was not provided with or directed to any evidence to support those allegations.

By our letter of 14 December 2016, Quintana denied your allegation that the directors of KBL continued to trade KBL while it was insolvent. That letter also invited you to provide to us urgently any evidence you had to substantiate your allegation of insolvent trading.

We understand from your letter of 11 January 2017 that the investigations you have undertaken to date are preliminary in nature and that any liquidator appointed to KBL would need to undertake more detailed investigations before determining whether to make claims against KBL's directors for insolvent trading.

We refer to annexure 1 of your letter of 11 January 2017, being a chart identifying certain indicia of insolvency that, in your view, existed in respect of KBL between June 2015 and September 2016. It appears from that chart, that your view remains that KBL was insolvent as early as February 2016.

We note that your letter of 11 January 2017 provides no explanation as to the bases for the matters you record in the chart. Nor does your letter expand upon your letter of 8 December by providing, or directing, Quintana to evidence to support the allegations in that letter. Nonetheless, Quintana responds as follows:

Our Ref PZBP:120639054

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Allens is an independent partnership operating in alliance with Linklaters LLP.

- (a) Quintana considers that KBL became insolvent on or around 8 September 2016, being the date that MRI Trading AG (**MRI**) advised KBL that it would defer its gold concentrate payments until 1,000 tonnes of gold concentrate was delivered to it by KBL. Prior to this event, KBL had the support of all its creditors, including MRI. The withdrawal of support by MRI, being a significant creditor, was the event that resulted in KBL no longer being able to pay its debts as and when they became due and payable and caused the directors of KBL to resolve to place KBL in voluntary administration.
- (b) Prior to 8 September 2016, KBL was able to pay its debts as and when they became due and payable.
- (c) Quintana accepts that KBL suffered periods of temporary illiquidity in the period from February 2016 to the date of the appointment of the administrators. As you are aware, a temporary lack of liquidity in the company does not indicate the company was insolvent – it is an embarrassment, not a disaster¹.
- (d) The following describes what occurred in KBL's business between January 2016 to September 2016, and shows why KBL was solvent at all times up until it entered voluntary administration:
- (i) In December 2015, the newly constructed carbon-in-leach plant (**CIL Plant**) at Mineral Hill was commissioned, and was handed over to KBL. The CIL Plant was installed to provide KBL with additional cash and improve the profitability of KBL's business in the medium and long terms.
 - (ii) The installation of the CIL Plant was a rational and sensible commercial decision for the long term profitability of KBL's business.
 - (iii) However, unfortunately, the construction and commissioning of the CIL Plant was significantly delayed, so delaying the benefit to KBL's financial position.
 - (iv) From January to March 2016, KBL experienced issues with the CIL Plant underperforming in its operation. This resulted in the CIL Plant failing to provide KBL with the full extent of the intended positive cash flows from the CIL Plant, as originally forecast.
 - (v) Given the above and the consequential effect of those issues on KBL's cash flow, in February 2016 KBL negotiated and finalised formal arrangements with its five major creditors to defer the payment of their debts. At no time until September 2016 did KBL lose the support of those creditors.
 - (vi) In March 2016 KBL completed a debt for equity swap converting \$2.9m of the major creditors' debts into equity through the placement of shares. This event not only retired debt, but also signalled that the relevant creditors supported KBL.
 - (vii) In March and April 2016 KBL successfully raised funds through two issuances of convertible notes.
 - (viii) In April 2016 KBL maintained the support of its major creditors and successfully negotiated with those creditors to vary its payment plans.
 - (ix) By June 2016 the issues with the CIL Plant had been resolved. However, in June 2016 the Mineral Hill site experienced unexpected and unusually high rainfall. This rain event caused various operational issues at the Mineral Hill site which delayed production, including cracks in an access road to the open cut pit and damage to the pit wall.

¹ *Hall v Poolman* (2007) 215 FCR 243, [266].

- (x) Notwithstanding that rain event, KBL remained able to pay its debts as and when they became due and payable because:
 - (A) KBL engaged APP Securities to raise \$9m through the issuance of convertible notes (\$3m) and a placement of shares (\$6m) to ensure that further working capital would be injected into KBL. KBL expected that those funds would be received within 3 months of the capital issue, and that KBL could recommence making payments to its creditors within that time period.
 - (B) KBL continued to have the support of major creditors and successfully negotiated with those creditors again to vary its repayment plans with those creditors.
- (xi) Unfortunately, the unusually high levels of rainfall continued in July and August 2016. This rain caused flooding that hampered KBL's efforts to efficiently process ore at Mineral Hill, and fully utilise the CIL Plant. This negatively affected the cash flows of KBL over this period.
- (xii) Notwithstanding this, in July and August 2016 KBL remained able to pay its debts as and when they became due and payable because:
 - (A) KBL received \$3.38m in equity from its capital raising efforts with APP Securities.
 - (B) KBL received funds from the issuing of convertible notes.
 - (C) KBL had in principle support from a holder that represented 40% of the noteholders for the deferral of the repayment date in respect of the \$11m Convertible Notes due in February 2017.
 - (D) KBL continued to have the support of major creditors and successfully negotiated with those creditors again to vary its repayment plans with those creditors.
- (xiii) Up until KBL entered voluntary administration, the major creditors of KBL continued to cooperate with KBL.

No insolvent trading

As set out in our letter of 19 January 2017, Quintana denies it is a shadow director of KBL.

Even if Quintana is found to be a shadow director and a liquidator establishes a date earlier than September 2016 as the date of insolvency, Quintana is of the view that the directors of KBL will be able to establish defences on the basis that they had reasonable grounds to expect and did expect that KBL was solvent based on the facts set out above and because:

- (a) In April and June 2016, KordaMentha was engaged by Perpetual Trustees (the trustee for, and representative of, the convertible note holders of KBL) to determine if KBL would be able to honour its obligation to repay the convertible notes on their maturity in February 2017. No steps were taken by Perpetual Trustees following those engagements and the convertible notes continued to be listed and traded after KordaMentha's engagement. This suggests that KordaMentha (a reputable and experienced insolvency accounting firm) was of the view that, not only was KBL solvent, but would be able to repay the convertible notes in February 2017.
- (b) MRI engaged independent advisers to consider periodically (weekly in some circumstances) the financial and production forecasts of KBL and KBL's ability to repay monies owed to MRI. We understand that there was no indication before September 2016 that MRI was not supportive of KBL's approach.

- (c) It would have been illogical for Quintana to continue to support KBL if it was insolvent. This is because, not only would Quintana be putting the Quintana Appointed Directors at risk of claims, the value of Quintana's security over all the assets and undertakings of KBL, including KBL's mining assets, would have been diminished by KBL.
- (d) KBL was advised by lawyers and other experts throughout the relevant period.

Difficulty in prosecuting the insolvent trading claim

Any insolvent trading claim brought by a liquidator of KBL would be difficult to prosecute. Any claim would be met with defences and would not be clear cut. Consequently, such a claim would be lengthy and costly. Any dividend to creditors is likely to be many months away in those circumstances.

Even if it is proven that KBL was insolvent as early as June 2016 (which Quintana denies), KBL only incurred debts of approximately \$4m from June 2016 to 8 September 2016 when it entered voluntary administration.

Leaving aside the factual and legal issues which are outlined above, any liquidator would encounter significant practical issues in prosecuting a claim against the directors. For example:

- (a) it will be difficult to find a litigation funder which would be willing to fund a claim of which is likely to be no more than \$4m;
- (b) a defended claim would take many months to resolve and incur significant legal costs;
- (c) even if such a claim were to be successful, after deduction of the funder's portion of any proceeds, legal costs, expert's costs and the liquidator's costs, the unsecured creditors of KBL would be likely to share in only a small proportion of any award, the balance of which would predominantly flow to Quintana who will have a claim in a liquidation of approximately AUS\$33m (after the realisation of Mineral Hill); and
- (d) it is not clear that any such claims would be covered by any insurance policy and, accordingly, there is a risk that any judgments might go unsatisfied.

Finally, if you intend to raise the insolvent trading allegation in your report to creditors of KBL under section 439A of the Act, we request that you either:

- (a) outline in your report the reasons and evidence that have been provided to you by Quintana in this letter and our letter of 14 December 2016; or
- (b) refer to in, and annex to, your 439A report this letter and our letter of 14 December 2016, so that the creditors of KBL can reach their own informed opinion about the veracity of your allegations.

Yours sincerely



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14 December 2016

Mr Matthew Woods
Joint and Several Administrator of KBL Mining Ltd
(Administrators Appointed)
(Receivers and Managers Appointed)
KPMG
Level 38, Tower Three, 300 Barangaroo Avenue
Sydney NSW 2000

By Email

Dear Mr Woods

KBL Mining Ltd (Administrators Appointed) (Receivers and Managers Appointed) (ACN 129 954 365) (KBL)

We refer to your letter of 8 December 2016 addressed to the directors of KBL and our client, Quintana Mineral Hill Streaming Company LLC (**Quintana**). We respond on behalf of Quintana.

The allegations contained in your letter that Quintana may have acted as a shadow director of KBL, and engaged in various unspecified breaches of directors duties (including insolvent trading) under the provisions of the *Corporations Act 2001* (Cth) (**Act**) are extremely serious and are denied by Quintana.

We note that your letter contains no reference to any evidence that suggests there is any basis to the allegations. Quintana is of the view that, in the absence of evidence that meets the standard of proof of balance of probabilities (i.e., a standard that requires the investigator to determine it is 'more probable than not' that the facts occurred), were any such allegations to form the basis of court proceedings brought by any liquidator of KBL, such proceedings would be deemed to be frivolous and doomed to fail. Quintana is also of the view that you will not be able to present evidence that establishes, on a balance of probabilities, that Quintana was a shadow director and acted in breach of a director's duties under the Act.

In particular, Quintana notes that:

- 1 Your letter fails to identify any evidence that Quintana has acted as a shadow director of KBL. In that regard:
 - (a) The inference that must therefore be drawn from the allegations in your letter is that, simply because Lawrence McKeen Roulston, Oliver Rodz and Charles Parsons Brown (together, the **Quintana Appointed Directors**) were appointed as directors of KBL at Quintana's request:
 - (i) the Quintana Appointed Directors acted at all times at the behest of Quintana;
 - (ii) the Quintana Appointed Directors caused the board of KBL to act in that manner; and
 - (iii) therefore Quintana has acted as a shadow director of KBL.

Our Ref PZBP:120639054
jsbp A0138175286v5 120639054 14.12.2016

- (b) Your letter does not refer to, or provide, any evidence whatsoever in support of the allegation that Quintana may have been a shadow director. In particular:
- (i) The definition of shadow director in the Act is expressly stated not to apply in circumstances where Quintana has a business relationship with the directors of KBL (including the Quintana Appointed Directors) or KBL itself.
 - (ii) The mere fact that Quintana has a business relationship with KBL and the Quintana Appointed Directors are nominees of Quintana does not make Quintana a shadow director.
 - (iii) The definition of a shadow director (supported by case authority) requires that a liquidator must prove, on sufficiently strong evidence, that KBL's board was accustomed to acting in accordance with Quintana's instructions. Your letter does not identify any evidence that the board of KBL acted in such a manner.
 - (iv) Even if, for the sake of argument, a liquidator could establish that the Quintana Appointed Directors acted at the behest of Quintana in their capacity as members of the board of KBL (which Quintana denies), that will be insufficient to establish that Quintana was a shadow director under the provisions of the Act given that the Quintana Appointed Directors constituted only three of the six board members of KBL.
 - (v) Your letter appears to suggest that the Quintana Appointed Directors may have persuaded the other directors of KBL, namely James Arthur Wall, Robert Ellis Besley and Gregory Barry Starr, to act in accordance with Quintana's instructions. Your letter provides no evidence to support such a suggestion.
- (c) In the absence of evidence Quintana is not in any position to substantively respond to your letter.

- 2 There is no evidence referred to in your letter which suggests that there was any insolvent trading from any date, or indeed any other breach of directors' duties under the Act by the directors of KBL. The allegations raised in your letter are vague and unsubstantiated and provide no basis upon which Quintana can respond.
- 3 In any event, the allegations are illogical, based on an objective view of the situation. There would be no commercial or economic benefit to Quintana to direct the Quintana Appointed Directors, and/or the entire board of KBL, to continue to trade KBL while insolvent. For instance, with Quintana's security being over all the assets and undertakings of KBL, including KBL's mining assets, those assets would be diminished by such actions and the ability of Quintana to sell KBL's assets to discharge KBL's indebtedness to it would be similarly reduced.
- 4 Quintana is of the view that the unsubstantiated allegations in your letter are misrepresentations and are misleading and deceptive and is left asking itself whether they were improperly made more for gamesmanship. If the unsubstantiated allegations in your letter are published or are published without you being reasonably certain that you will be able to meet the standard of proof, including in any report pursuant to section 439A of the Act, or conveyed to any third party by any means, unjustified loss and damage would be caused to Quintana and to the Quintana Appointed Directors, including in Australia. We understand that the Quintana Appointed Directors are separately represented and their solicitors will be communicating with you directly on their behalf.
- 5 Accordingly, in the absence of the provision of evidence to support the allegations in your letter, and Quintana having a full opportunity to consider such evidence and respond, you should not communicate the allegations in your letter to any other person or make the allegations public. If you intend to make the allegations public without giving Quintana the opportunity to respond, please give

us at least 3 business days of notice so that we can take Quintana's instructions, including in relation to seeking injunctive relief.

- 6 We also put you on notice that Quintana reserves all its rights, including rights under both Australian law and the law of the United States of America and any and all causes of action and damages available to them in these jurisdictions, if the allegations are published to the creditors without sufficiently strong evidence and/or for gamesmanship, or if the administrators of KBL or any employee, or agent, of KPMG communicates the allegations (or any part thereof) to a third party.
- 7 In any event, we are instructed that should you and Mr Vaughan as liquidators of KBL, or any liquidator of KBL, seek to commence proceedings to establish that Quintana acted as a shadow director of KBL and breached the Act in the absence of sufficiently strong evidence to support such claims, Quintana will take all steps necessary to defend its position and seek legal recourse.

For the avoidance of doubt, we reserve all Quintana's rights.

We invite you to urgently provide us with any evidence you have in your possession relating to the allegations or otherwise retract and/or reissue your letter.

We await hearing from you.

Yours sincerely



Philip Blaxill
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Allens
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K: Estimated outcome statement

K.1. Liquidation

Estimated outcome statement - Liquidation

\$'000	Notes	Liquidation		
		Low	Med	High
Assets available				
Circulating assets				
Assets recovered by VA during trading period	a	240	240	240
Costs paid by the VA during trading period	b	(100)	(100)	(100)
Trading costs incurred but not paid during VA period	c	(462)	(462)	(462)
Fees incurred during trading period (approved by Committee of Creditors)	d	(288)	(288)	(288)
Statutory lien applied by VA		(609)	(609)	(609)
Receiver's circulating asset realisations	e	Not disclosed	Not disclosed	Not disclosed
Funding from Receiver for VA's statutory lien	f	609	609	609
Funding from Receiver for VA's fees and costs	d	60	60	60
Receiver's circulating asset realisations (net of R+M fees and costs)	g	-	-	-
Assets available for priority creditors		-	-	-
Less priority employee entitlement (estimate only)	h	(1,340)	(1,340)	(1,340)
Circulating assets available for other creditors and costs		-	-	-
FEG funding available for priority employee entitlements	i	1,340	1,340	1,340
Priority employee dividend (cents in the dollar)		100%	100%	100%
Non circulating assets				
Estimated surplus after secured asset sale and costs	j	-	-	-
Potential Liquidator's recoveries				
Insolvent trading	k	-	Uncertain	Uncertain
Unfair preference	k	-	Uncertain	Uncertain
Total potential Liquidator's recoveries		-	Uncertain	Uncertain
Less indicative litigation funding costs	l	-	Uncertain	Uncertain
Potential net Liquidators' recoveries		-	Uncertain	Uncertain
Illustrative discount for prospects of successful litigation		-	Uncertain	Uncertain
Illustrative discount for early settlement			Uncertain	Uncertain
Risk adjusted net Liquidators' recoveries		-	Uncertain	Uncertain
Remuneration requested (in addition to note d)				
Remaining Administrators' fees from 19 Sept '16 to 3 Feb '17	d	-	(497)	(497)
Administrators' disbursements	d	-	(21)	(21)
Liquidators fees (approximation)	d	-	(1,000)	(2,000)
Total remuneration requested		-	(1,518)	(2,518)
Estimated legal costs (approximation)	m	-	(500)	(1,250)
Funds available for unsecured creditors		-	Uncertain	Uncertain
Total creditor claims				
Shortfall on secured creditor recoveries	n	(34,000)	(34,000)	(32,000)
Unsecured noteholders	o	(11,003)	(11,003)	(11,003)
Other unsecured creditors	p	(14,635)	(14,635)	(14,635)
Total creditor claims		(59,638)	(59,638)	(57,638)
Total remuneration requested		-	(1,518)	(2,518)
Cents in the dollar return to creditors		0%	Uncertain	Uncertain

Notes

- During the VA period \$107 of cash was collected and \$132 of gold dore sold
- Represents wages paid, excluding on costs which were applied under VA's statutory lien
- Trading liabilities incurred by the Voluntary Administrators which remained undischarged at the appointment of Receivers
- Please refer to remuneration report
- Receivers have not disclosed the value of circulating asset realisations
- Funds contributed from the Receivers to discharged liabilities incurred during the VA trading period
- Receivers and Managers have advised that it is unlikely surplus circulating assets will be available after their costs
- Preliminary calculation based on a high level review of KBL accounting systems
- Funding is drawn from FEG in Liquidation. Some employee entitlements are excluded in Liquidation as compared to DOCA (Excluded Employees)
- The Receivers and Managers have advised it is unlikely funding will be available from non circulating assets
- Please refer to Liquidation section of this report.
- Estimated litigation funding costs based on preliminary discussions with litigation funders
- Estimate of legal costs subject to change
- Based on estimated provided by the Receivers and Managers
- Estimated claims, subject to an adjudication process noting Perpetual may be entitled to priority over the first \$114k distributed
- Estimated claims, subject to an adjudication process

K.2.Deed of Company Arrangement

Estimated outcome statement - DOCA

\$'000	Notes	DOCA		
		0% participation	50% participation	100% participation
Noteholder participation %				
Assets available				
Circulating assets				
Assets recovered by VA during trading period	a	240	240	240
Costs paid by the VA during trading period	b	(100)	(100)	(100)
Trading costs incurred but not paid during VA period	c	(462)	(462)	(462)
Fees incurred during trading period (approved by Committee of Creditors)	d	(288)	(288)	(288)
		(609)	(609)	(609)
Statutory lien applied by VA				
Receiver's circulating asset realisations	e	Not disclosed	Not disclosed	Not disclosed
Funding from Receiver for VA's statutory lien	f	609	609	609
Funding from Receiver for VA's fees and costs	d	60	60	60
Receiver's circulating asset realisations (net of R+M fees and costs)	g	-	-	-
Assets available for priority creditors				
Non circulating assets				
Estimated surplus after secured asset sale and costs	j	-	-	-
Assets realisations available for creditors				
Application of DOCA fund				
Tranche 1				
Proceeds of first tranche of funding	k	500	500	500
Voluntary Administrators' fees sought	d	(557)	(557)	(557)
Deed Administrators fees sought	d	(200)	(200)	(200)
Less Voluntary Administrators' disbursements	d	(21)	(21)	(21)
Less VA and DA legal fees	l	(400)	(400)	(400)
Shortfall on VA and DA fees and costs		(678)	(678)	(678)
Tranche 2 (release of securities)				
Proceeds of second tranche of funding	m	1,000	1,000	1,000
Less consideration payable / costs incurred for release of necessary securities	m	(1,000)	(1,000)	(1,000)
Surplus funds after MRI claim		-	-	-
Tranche 3 (participating noteholders)				
Value shares allocated to participating noteholders (at 20c)	n	-	556	1,112
Total noteholder claims	o	(11,003)	(11,003)	(11,003)
Value of Noteholders participating in share issue (0%, 50%, 100%)		-	(5,502)	(11,003)
Cents in the dollar return to Tranche 3 Noteholders		n/a	10c	10c
Tranche 4 (non participating noteholders and unsecured creditors)				
Value of shares from non-participating noteholders in Tranche 3 (at 20c)	p	1,112	556	-
Value of shares allocated to Tranche 4 (at 20c)	q	1,520	1,520	1,520
Value of shares available for Tranche 4 (at 20c)		2,632	2,076	1,520
Less shortfall on VA and DA fees and costs		(678)	(678)	(678)
Funds available for Tranche 4 creditors		1,953	1,397	841
Non-participating noteholder claims	o	(11,003)	(5,502)	-
Unsecured creditor claims	r	(14,635)	(14,635)	(14,635)
Total Tranche 4 creditor claims		(25,638)	(20,137)	(14,635)
Cents in the dollar return to Tranche 4 creditors		8c	7c	6c

Sensitivity for Tranche 3 and 4 returns for changes in share price

Participation level of noteholders in Tranche 3	0% participation	50% participation	100% participation
Value obtained by Participating Noteholders (Tranche 3)			
0 cents	-	-	-
20 cents	n/a	10c	10c
40 cents	n/a	20c	20c
Share price obtained in disposal of shares for Creditors Trust (Tranche 4)			
0 cents	-	-	-
20 cents	8c	7c	6c
40 cents	15c	14c	11c

Notes

- a. During the VA period \$107 of cash was collected and \$132 of gold dore sold
- b. Represents wages paid, excluding on costs which were applied under VA's statutory lien
- c. Trading liabilities incurred by the Voluntary Administrators which remained undischarged at the appointment of Receivers
- d. Please refer to remuneration report
- e. Receivers have not disclosed the value of circulating asset realisations
- f. Funds contributed from the Receivers to discharged liabilities incurred during the VA trading period
- g. Receivers and Managers have advised that it is unlikely surplus circulating assets will be available after their costs
- h. Preliminary calculation based on a high level review of KBL accounting systems
- i. Funding is drawn from FEG in Liquidation. Some employee entitlements are excluded in Liquidation as compared to DOCA (Excluded Employees)
- j. The Receivers and Managers have advised it is unlikely funding will be available from non circulating assets
- k. Please refer to Deed of Company Arrangement section of this report
- l. Estimate provided by legal advisors
- m. \$1m proceeds for release of securities related to Sorby shareholding
- n. Assumes noteholders elect to participate in share rather than cash dividend at varying percentages of 0%, 50%, 100%
- o. Estimated claims, subject to an adjudication process noting Perpetual may have priority for the first \$114k of proceeds
- p. Estimated value of shares allotted to creditors trust from non participating noteholders at 20c share price
- q. Estimated value of shares allocated directly to Tranche 4 of creditors trust
- r. Estimated claims, subject to an adjudication process

L: Proposed Deed of Company
Arrangement (draft and non-binding)

**KBL MINING LIMITED
(RECEIVERS AND MANAGERS APPOINTED) (ADMINISTRATORS APPOINTED)
ACN 129 954 365 (the Company)**

**TERM SHEET FOR
DEED OF COMPANY ARRANGEMENT (DOCA) PROPOSAL
INVOLVING A PARTIALLY UNDERWRITTEN ENTITLEMENTS OFFER
AND A CREDITORS' TRUST**

Key Element	Proposal
1 Proposal	<p>1.1 Everblu Capital Pty Ltd ACN 612 793 683 as lead manager (the Proponent) proposes that:</p> <p>(a) Following approval of the DOCA terms, by creditors at the Second Creditors Meeting held in accordance with s 439A <i>Corporations Act</i> (Cth) (the Act) (2nd Creditors Meeting), the Company will implement the proposal as set out below (Proposal) with the aim of achieving the economic outcomes and capital structure set out in Annexure B:</p> <p>(i) the Proponent will by no later than six months after execution of the DOCA or such later date approved by the Deed Administrators in writing, conduct a capital raising to raise up to A\$5,600,000 on the following terms:</p> <p>(A) the Company will conduct a:</p> <ul style="list-style-type: none"> • partially underwritten non-renounceable pro-rata entitlements offer of fully paid ordinary shares in the capital of the Company (Shares) to shareholders on the basis of [7]Shares for every [10] Shares held on the record date for the offer (Entitlement Offer); and • an offer to Noteholders to subscribe for Shares in addition to the debt for equity swap described in section 1.1(b)(i)(A)(Noteholder Entitlement Offer), <p style="text-align: center;">(the Entitlement Offer and Noteholder Entitlement Offer are together referred to as the Capital Raising)</p> <p>in each case subject to any required waivers of the ASX Listing Rules being granted by the ASX in relation to the structure of the Capital Raising;</p> <p>(B) the Proponent will act as lead manager of the Capital Raising and Anglo Menda Pty Limited ACN 608 554 052 (Underwriter) will partially underwrite the Capital Raising to the value of \$3,600,000. The terms under which the Proponent will act as lead manager and the Underwriter will underwrite the Capital Raising are set out in the Offer Management and Underwriting Agreement on commercial terms reflecting those set out at Annexure A ;</p> <p>(C) the Capital Raising will have a minimum subscription of:</p> <ul style="list-style-type: none"> • \$3,600,000 if: <ul style="list-style-type: none"> – subject to Shareholder approval or a waiver of

Key Element	Proposal
	<p>ASX Listing Rule 7.1, \$1,500,000 in cash is paid and the number of Shares (based on a \$0.20 per share value) equivalent in value to [\$4,528,175]¹ are issued to the Creditors Trust on behalf of the Ordinary Beneficiaries (subject to any excess remuneration payable in accordance with section 1.1(d)(ii)) for a total value of [\$6,028,175]¹. To the extent that proceeds of between \$3,600,000 and \$4,600,000 are raised under the Capital Raising, the amount of cash paid and number of Shares issued to the Creditors Trust will not be impacted and the additional amount will be used by the Company to satisfy its working capital requirements; or</p> <ul style="list-style-type: none"> • \$5,100,000 if: <ul style="list-style-type: none"> – subject to Shareholder approval or a waiver of ASX Listing Rule 7.1, \$2,000,000 in cash and the number of Shares (based on a \$0.20 per share value) equivalent in value to [\$4,028,175]¹, are issued to the Creditors Trust on behalf of the Ordinary Beneficiaries (subject to any excess remuneration payable in accordance with section 1.1(d)(ii)) for a total value of [\$6,028,175]¹; or • \$5,600,000, if <ul style="list-style-type: none"> – subject to Shareholder approval or a waiver of ASX Listing Rule 7.1, \$2,500,000 in cash and the number of Shares (based on a \$0.20 per share value) equivalent in value to [\$3,528,175]¹, are issued to the Creditors Trust on behalf of the Ordinary Beneficiaries (subject to any excess remuneration payable in accordance with section 1.1(d)(ii)) for a total value of [\$6,028,175]¹; <p>(Minimum Subscription). If the Minimum Subscription is not raised by the Lead Manager, then no Shares will be issued under the Capital Raising and this Proposal will be varied or failing that, terminated pursuant to section 1.1(n);</p> <p>(ii) the offers of Shares under the Entitlement Offers and issues of Shares to the Creditors' Trust under section 1.1(i)(C) (Placements) will be made by the Company using a prospectus (in compliance with section 710 of the Corporations Act);</p> <p>(b) In order to implement the Proposal:</p> <p>(i) the Deed Administrators will make application to the Court for</p>

¹ The definition of Ordinary Beneficiaries excludes each Noteholder who elects to receive Shares under the Proposal. However, the \$4,528,175 includes an assumed \$1,112,137 for Noteholders where it is not known at the time of preparing this Proposal whether they will elect to receive Shares, therefore this number may change once the elections are known.

Key Element	Proposal
	<p>approval pursuant to section 444GA of the <i>Corporations Act 2001</i> (Cth), to permit the following transfers of Shares from existing Shareholders with such transfers to be conditional on the Minimum Subscription being raised under the Capital Raising pursuant to section 1.1(a) above and to take place on the date of allotment of the Shares under the Capital Raising;</p> <p>(A) transfer of [394,396,235]² pre consolidation Shares (which is approximately 13.62 pre consolidation Shares per Note) to Noteholders who elect by notice to receive such transfer in full and final satisfaction of all Claims in connection with the Notes having \$0.38 of face value per Note plus accrued interest;</p> <p>(B) transfer of pre consolidation Shares equivalent in value to \$1,000,000 to the Secured Creditor;</p> <p>(C) transfer of 317,880,607 pre consolidation Shares in satisfaction of claims of Priority Creditors (subject to the additional Share issues contemplated in section 1.1(g) if the Priority Creditors Assumed Claims are not satisfied in full) to the Creditors Trust on behalf of the Priority Creditors (or otherwise to be applied in accordance with the waterfall in clause 7);</p> <p>(D) transfer of [538,917,428]³ pre consolidation Shares in satisfaction of claims of Ordinary Beneficiaries plus the value of Notes held by Noteholders who elect not to receive Shares in (A) above (Estimated Claims), to the Creditors Trust on behalf of the Ordinary Beneficiaries other than Priority Creditors (subject to any excess remuneration payable in accordance with section 1.1(d)(ii));</p> <p>(E) transfer of 296,688,566 pre consolidation Shares to the Proponent and an aggregate of 692,273,321 pre consolidation Shares to the Underwriter and sub-underwriters nominated by the Underwriter in satisfaction of payment of fees under the Offer Management and Underwriting Agreement;</p> <p>(ii) the Company (acting by its new directors) will enter into the Offer Management and Underwriting Agreement with the Proponent and the Underwriter on commercial terms reflecting those set out at Annexure A under which the Proponent will lead manage and the Underwriter will partially underwrite (to \$3.6 million) the Capital Raising;</p> <p>(iii) the Company will seek a waiver of the rights issue exemption under ASX Listing Rule 7.2 to enable the Noteholders to participate in the Noteholder Entitlement Offer. If a waiver is not available, the</p>

² This is an indicative number based on all Noteholders electing to exchange their debt for equity; where it is not known at the time of preparing this Proposal whether they will elect to receive Shares, therefore this number may change once the elections are known.

³ This is an indicative number based on no Noteholders electing not to exchange their debt for equity; where it is not known at the time of preparing this Proposal whether they will elect to receive Shares, therefore this number may change once the elections are known.

Key Element	Proposal
	<p>Company will issue a nominal number of Shares being 100 pre-consolidation Shares to each of the Noteholders following which the Entitlement Offer will be made to all shareholders for the full \$5.6 million;</p> <p>(iv) the Proponent will conduct the Capital Raising as set out in section 1.1(a) above;</p> <p>(v) the Company will convene a General Meeting at which Shareholder approval will be sought:</p> <p>(A) for the purposes of section 254H of the Corporations Act being obtained, for the Company to undertake a consolidation of its issued share capital on the basis that every 71 Shares will be consolidated into one Share (ie. a consolidation ratio of 71:1) (Consolidation);</p> <p>(B) if required for the purposes of ASX Listing Rule 7.1, for the grant of the following options:</p> <p>- 15% of the number of shares issued in Capital Raising in options (on a post Consolidation basis) with a 5 year term and an exercise price of 30 cents to the Proponent; and</p> <p>- 35% of the number of shares issued in Capital Raising in options (on a post Consolidation basis) with a 5 year term and an exercise price of 30 cents to the Underwriter; and</p> <p>(C) if required for the purposes of ASX Listing Rule 7.1, for the issue of Shares pursuant to the Placements and any share issues required to meet obligations to the Priority Creditors pursuant to section 1.1(g).</p> <p>(vi) the Company must implement this Proposal in accordance with the steps plan attached as a schedule to this Proposal.</p> <p>(c) Within 2 Business Days of receipt of the proceeds of the Capital Raising, the Company will pay, from the proceeds of the Capital Raising, the following cash amount to the Trustees on an irrevocable, non-refundable basis:</p> <p>(i) if at least \$3,600,000 is raised but less than \$4,600,000, \$1,500,000;</p> <p>(ii) if between \$4,600,000 and \$5,600,000 is raised, the sum raised less \$3,100,000; or</p> <p>(iii) if at least \$5,600,000 is raised, \$2,500,000.</p> <p>(d) The Deed Administrators will establish a trust in accordance with clause 4 (for the purpose of accepting the issue or transfer of Shares to it under the Proposal and the transfer of the relevant cash amount into the Creditors' Trust (the Trust Fund)), whereupon all Claims of the Ordinary Beneficiaries (Assumed Claims) will be assumed by the Trust acting through the Trustee, to enable:</p>

Key Element	Proposal
	<p>(i) all Assumed Claims to be extinguished and released as against the Company, and each creditor who had an Assumed Claim to have an equivalent claim against the Trust Fund, which is equal to the amount of their released Claim;</p> <p>(ii) Administrators', Deed Administrators' and Trustees' remuneration, costs and liabilities incurred to be paid in full but up to a maximum of \$500,000 from a cash deposit into the Trust from the Capital Raise with any balance to be paid from the proceeds of sale of the Shares issued or transferred to the Creditors' Trust prior to any dividend being paid to Ordinary Beneficiaries under clause 7.1(e);</p> <p>(iii) the sum of \$1,000,000 from the proceeds of the Capital Raising paid to the Trust for the purpose of funding the transaction in clause 1.1(k) (to effect a release of the security in favour of MRI and the Secured Creditor over the shares in KBL Sorby Hills Pty Ltd);</p> <p>(iv) Priority Creditors with Assumed Claims to be paid a dividend from the sale proceeds of the Shares transferred and issued to the Trust with respect to these Assumed Claims and proceeds of the Capital Raising paid to the Trust, pro-rated in respect of their admitted Assumed Claims;</p> <p>(v) Ordinary Beneficiaries (other than Priority Creditors) with Assumed Claims to be paid a dividend from the sale proceeds of the Shares transferred and issued to the Trust pro-rated in respect of their admitted Assumed Claims after payment of any excess remuneration in accordance with section 1.1(d)(ii);</p> <p>(vi) any surplus to be returned to the Company,</p> <p>in each case in accordance with clause 7.</p> <p>(e) Ordinary Beneficiaries whose Assumed Claims are assumed by the Creditors' Trust will no longer be creditors of the Company but will instead become beneficiaries of the Creditors' Trust (Trust Creditors). Subject to the terms of this Proposal, for the purpose of determining the admissibility and ranking of Trust Creditors' claims in the Creditors Trust, regulations 5.6.39 to 5.6.72 of the <i>Corporations Regulations 2001</i> (the Regulations) and Sub-divisions A to E of Division 6 of part 5.6 of the Act shall apply to the Creditors Trust and the Trustees as if references to a "Liquidator" were references to the Trustees, references to "winding up" were references to the "Creditors' Trust" and with such other modifications as are necessary to give effect to the Creditors' Trust.</p> <p>(f) The Trustees of the Creditors' Trust become solely responsible to the Trust Creditors for:</p> <p>(i) ensuring that the Company and/or other third parties perform their obligations to the Trustee;</p> <p>(ii) determine how much each of the Trust Creditor is entitled to receive from the Trust Fund; and</p> <p>(iii) in due course, making any distribution to those Trust Creditors.</p>

Key Element	Proposal
	<p>(g) The Trustees of the Creditors' Trust shall sell the Shares issued or transferred to the Creditors' Trust under the Proposal (Trust Shares) as follows:</p> <ul style="list-style-type: none"> (i) the Trust Shares will be sold on-market in the ordinary course of trading except with the Company's prior written consent over a period of 18 months from the Completion Date; (ii) the Trust Shares will be sold via a broker nominated by the Company, subject to the Administrator's right, acting in good faith, to approve or otherwise the Company's nomination within 10 Business Days' notice of same; and (iii) not more than 10% of the total number of Trust Shares may be sold in any single month except with the Company's prior written consent. <p>If the cash for Priority Creditors placed into the Trust (to occur when proceeds from the Capital Raising are in excess of \$4.6M) plus proceeds of sale of the Trust Shares do not fully satisfy the Assumed Claims of the Priority Creditors, the Company shall issue for nil consideration such further number of Shares to the Trust for sale in accordance with this section 1.1(g) as is necessary to satisfy these amounts in full.</p> <p>(h) The Trustees of the Creditors' Trust will vote in respect of the Trust Shares in favour of the resolutions put to Shareholders in connection with the Proposal.</p> <p>(i) On payment of the final dividend to the Trust Creditors from the Trust Fund, all Assumed Claims against the Trust Fund are extinguished and each Trust Creditor will, if called upon to do so, execute and deliver to the Trustees such forms of release of any Assumed Claim as the Trustees require.</p> <p>(j) The Secured Creditor will irrevocably release its claim and all of its rights under and in connection with the existing finance and security documents subject to satisfaction (or in the case of (i) waiver by the Secured Creditor) of the following conditions:</p> <ul style="list-style-type: none"> (i) the disposal of all the assets of the Company except for the shares of KBL Sorby Hills Pty Ltd; (ii) prior to and conditional on the transfer of Shares contemplated in (iii), entry by it and the Company into an agreement for the payment of a Net Smelter Royalty (NSR) of 2% from the gross revenue from all silver and lead proceeds derived from the existing exploration licences in respect of Sorby Hills. The Secured Creditor will be entitled to secure this NSR by a General Security Agreement registered against the Company's shares in KBL Sorby Hills Pty Ltd, subject to the Secured Creditor agreeing that such security shall be released and removed from the register when the Company enters into any new development financing arrangement; and (iii) the transfer of Shares in the Company to the equivalent value of

Key Element	Proposal
	<p style="text-align: center;">\$1,000,000 at issue as set out in the Proposal;</p> <p>and agrees to vote in respect of the Shares transferred to it, in favour of the resolutions put to Shareholders in connection with the Proposal.</p> <p>(k) The Company will enter into a transaction within 45 days of entry into the DOCA or such later date agreed by the Proponent in writing, to effect a release of the security in favour of MRI and the Secured Creditor over the shares in KBL Sorby Hills Pty Ltd, such release to be effective immediately or on such other date acceptable to the Proponent, in exchange for a right to receive payment as a Trust Creditor admitted for the sum of \$1,000,000 and to be paid in the priority set out in clause 7.</p> <p>(l) The Noteholders who elect to receive Shares under the Proposal irrevocably release their rights under and in connection with the Notes against the Company in exchange for the receipt of those Shares.</p> <p>(m) The Company will take all reasonable steps to ensure that, subject to the completion of all steps in section 1.1(a) completion of the Consolidation and the satisfaction of any pre-quotation disclosure requirements or other conditions imposed by ASX which cannot be satisfied prior to completion of the Capital Raising and Consolidation, the Company's Shares will be reinstated to quotation by the ASX pursuant to ASX Listing Rule 17.7 and for this purpose, the Company must take all reasonable steps to ensure that it satisfies any conditions imposed by ASX for the reinstatement of its Shares to quotation, including lodging the following documents with ASX:</p> <ul style="list-style-type: none"> (i) the Company's Annual Report for the financial year ended 30 June 2016; and (ii) reviewed financial statements of the Company for the half year ended 31 December 2016. <p>(n) Each of the steps set out in section 1.1 are inter-conditional on each of the other steps in section 1.1 occurring (except (g) and (i) . If any step in section 1.1 (except (g) and (i)) is unable to be completed or has not completed within six months after execution of the DOCA or such later date approved by the Deed Administrators in writing, then this Proposal is varied in accordance with clause 12 of this Proposal, or if a variation is not agreed, then terminated in accordance with clause 13 of this Proposal.</p> <p>(o) The matters and steps in this Proposal (including this clause 1.1) are subject to the legal and regulatory requirements of the Corporations Act, the ASX Listing Rules, the Australian Securities Investments Commission (ASIC) and the ASX and are subject to the Company obtaining certain waivers of the ASX Listing Rules and ASIC exemptions under the Corporations Act (including with respect to to the Creditors' Trust holding more than 20% of the share capital of the Company) and will be amended to the extent necessary to take into account and / or accommodate any necessary legal or regulatory requirements of the Corporations Act, the ASX Listing Rules, ASIC or ASX.</p> <p>1.2 In this clause:</p> <p>(a) "Appointment Date" means 8 September 2016.</p>

Key Element	Proposal
	<p>(b) "Claim" means a debt payable by, and all claims against the Company, being a debt or claim any of the circumstances giving rise to which occurred on or before the Appointment Date that would be admissible to proof against the Company in accordance with Division 6 of Part 5.6 of the Act, if the Company had been wound up and the winding up is taken to have commenced on the Appointment Date.</p> <p>(c) "Employee" means a person:</p> <p>(i) who has been or is an employee of the Company, whether remunerated by salary, wages, commission or otherwise; and</p> <p>(ii) whose employment by the Company commenced before the Appointment Date.</p> <p>(d) "MRI" means MRI Trading AG</p> <p>(e) "Notes" means the notes issued by the Company pursuant to the convertible note trust deed between the Company and The Trust Company (Australia) Limited dated 21 July 2011 as amended and restated in respect of convertible notes</p> <p>(f) "Noteholder" has the meaning given under the Notes</p> <p>(g) "Ordinary Beneficiaries" means all creditors of the Company (including contingent creditors) as at the Appointment Date including MRI to the extent of any shortfall in the value of its security, and excluding the Secured Creditor and each Noteholder who elects to receive Shares under the Proposal</p> <p>(h) "Priority Creditors" means each Ordinary Beneficiary entitled to be paid in respect of a Claim for an amount payable to or claimable by such beneficiary in their capacity as an Employee</p> <p>(i) "Secured Creditor" means Quintana Mineral Hill Streaming Company LLC</p>
<p>2 Purpose of DOCA Proposal</p>	<p>2.1 This DOCA Proposal is designed to:</p> <p>(a) maximise the chance of the Company continuing in existence;</p> <p>(b) provide a greater return to the Company's creditors than would be available in a liquidation and in a timely manner;</p> <p>(c) facilitate a recapitalisation of the Company through the Capital Raising; and</p> <p>(d) cause the Company to be released from all claims (apart from any claims and liabilities (if any) which cannot be released by a DOCA or which are expressly specified not to be released pursuant to the DOCA).</p>
<p>3 Deed Administrators/ Trustees of the Creditors'</p>	<p>3.1 Matthew Woods and Stephen Vaughan of KPMG (Administrators) will be the Deed Administrators, will have all the necessary powers to administer the DOCA and will be entitled to exercise all rights, privileges, authorities and discretions conferred by the Company's constitution or otherwise by</p>

Key Element	Proposal
Trust	<p>law on the directors to the exclusion of the Directors during deed administration (except as otherwise specified).</p> <p>3.2 The Deed Administrators will assume the role of Trustees of the Creditors Trust.</p>
4 Establishment of Creditors Trust	<p>4.1 A Creditors' trust will be established and named "KBL Mining Creditors' Trust" (Creditors' Trust).</p> <p>4.2 The purpose of the Creditors Trust will be to enable certain tasks ordinarily undertaken by the Deed Administrators (including but not limited to, the calling for and adjudication of creditors' proofs of debt) to be performed by the Trustees of the Creditors Trust in order to facilitate the termination of the DOCA.</p> <p>4.3 Property available to the Creditors Trust comprises the "Trust Fund". The "Trust Fund" includes:</p> <p>(a) the cash referred to in clause 1.1(c); and</p> <p>(b) the Shares issued and/or transferred to the Creditors Trust under and to be sold in accordance with the Proposal.</p>
5 Participating Creditors	<p>5.1 Creditors of the Company who had a claim as at the Appointment Date will be bound by the DOCA, including any contingent creditors (excluding those creditors expressly specified not to be bound by a DOCA).</p>
6 Board of Directors	<p>6.1 With effect upon execution of the Underwriting Agreement the directors to be nominated by the Proponent will be appointed to the Board of the Company (Directors).</p> <p>6.2 Upon execution of the DOCA, the Company acting by the Directors will execute and perform the obligations of the Company under, the underwriting agreement in respect of the Capital Raising attached to DOCA.</p> <p>6.3 The Company shall be returned to the Directors on completion of the DOCA.</p>
7 Application of the Trust Fund	<p>7.1 The Trust Fund will be applied by the Trustees in the order of priority as follows:</p> <p>(a) first, to the Administrators, Deed Administrators and Trustees for any amount which they are entitled to be paid or indemnified under 443D of the Act or clauses 9 and 10 (even though they may have ceased to be Administrators or Deed Administrators) and in the case of the Trustees, may include an amount of the Trustees' remuneration and costs which are estimated to be incurred up to the date on which the Creditors' Trust terminates (Administrator, Deed Administrator and Trustee Costs), subject to a maximum payment of \$500,000;</p> <p>(b) next pursuant to the terms of the transaction in clause 1.1(k) subject to a maximum payment of \$1 million;</p> <p>(c) next, to the Priority Creditors subject to a maximum payment of \$1.9</p>

Key Element	Proposal
	<p>million;</p> <p>(d) next, to the Administrators, Deed Administrators and Trustees for any Administrator, Deed Administrator and Trustee Costs not paid under (a) above;</p> <p>(e) next to the Ordinary Beneficiaries (excluding Priority Creditors).</p> <p>7.2 In the event that there is a surplus balance after the Trust Creditors have received their distribution in accordance with clause 7.1, such surplus, balance shall be transferred from the Trustees to the Company.</p> <p>7.3 The Trust Fund may be distributed by the Trustees at such times, in such amounts and in such manner as the Trustees in their absolute discretion deem fit subject to the priorities and maximum payments in clause 7.1.</p> <p>7.4 Subject to the terms of this Proposal including without limit this clause 7, the terms of section 556 and 560 of the Act shall apply as if references to the "Liquidator" were references to the "Trustee", references to "winding up" were references to the "Creditors' Trust" and with such other modifications as are necessary to give effect to the terms of this document.</p> <p>7.5 Sections 444DA and 444DB of the Act will apply to the DOCA.</p>
<p>8 Remuneration</p>	<p>8.1 The Deed Administrators will be entitled to their remuneration and costs on the basis of time spent by the Deed Administrators, their partners and staff in the performance of services in connection with or in relation to the administration of the Companies under Part 5.3A of the Act and the DOCA and such time will be charged at the Deed Administrators' standard rates, from time to time, for work of that nature.</p> <p>8.2 The Trustees will be entitled to their remuneration and costs on the basis of time spent by the Trustees, their partners and staff in the performance of services in connection with or in relation to the administration of the Creditors' Trust and such time will be charged at the Trustees' standard rates, from time to time, for work of that nature.</p>
<p>9 Administrators' / Deed Administrators' / Trustees' Lien</p>	<p>9.1 The Administrators and Deed Administrators (whether or not they are still acting in either capacity) are entitled to be indemnified out of, and have a first ranking lien over the assets of the Company and the Trust Fund for:</p> <p>(a) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments whatsoever arising out of or in any way connected to the administration or deed administration of the Company or their role as Administrators or Deed Administrators and incurred or sustained in good faith and without negligence;</p> <p>(b) any amount which the Administrators are, or would but for the transactions contemplated by this DOCA be, entitled to be indemnified out of the assets of the Company for, in accordance with the Act, at law or in equity, including any amounts payable pursuant to section 443A, section 443B or section 443BA of the Act;</p> <p>(c) any debts, liabilities, damages, losses and remuneration to which the</p>

Key Element	Proposal
	<p>statutory indemnity under section 443D of the Act applies;</p> <p>(d) any amount for which the Administrators or Deed Administrators are entitled to exercise a lien at law or in equity on the property of the Company;</p> <p>(e) the Administrators' and Deed Administrators' remuneration and costs;</p> <p>(f) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments arising out of or in the course of the administration and/or DOCA and incurred or sustained in good faith and without negligence.</p> <p>9.2 The Trustees will have an equivalent indemnity secured by a lien over the Trust Fund.</p>
10 Enforcement against the Company	<p>10.1 During the period of operation of the DOCA, the Company, any officer or member of the Company or any creditor bound by the provisions of the DOCA must not make any application to wind up the company, continue any such application or commence or continue any enforcement process in relation to the property of the Company.</p>
11 Completion of DOCA	<p>11.1 The DOCA will complete or be fully effectuated upon each of the following being satisfied:</p> <p>(a) the Secured Creditor consenting to be bound by the terms of the DOCA;</p> <p>(b) pursuant to the DOCA:</p> <p>(i) the Secured Creditor releasing its existing claims against the Company and releasing all associated security ; and the Company executing a NSR Agreement and associated new security documents with the Secured Creditor on terms acceptable to the parties;</p> <p>(ii) completion of the transaction contemplated in clause 1.1(k);</p> <p>(c) completion of the Capital Raising and each of the other Proposal steps set out in paragraphs 4 to 15 of the Schedule including execution of the Creditors Trust Deed.</p> <p>11.2 In accordance with clause 6, the Company shall be returned to the board of directors upon completion of the DOCA.</p>
12 Variation of DOCA	<p>12.1 The DOCA may be varied by resolution passed at a meeting of creditors convened under s445F of the Act.</p> <p>12.2 Nothing in the varied DOCA shall limit the operation of s445D and s445E of the Act.</p>
13 Termination of DOCA	<p>13.1 In the event that:</p> <p>(a) Capital Raising Shares have not been issued within six months of the DOCA being executed or such later date approved by the Deed</p>

Key Element	Proposal
	<p>Administrators in writing; or</p> <p>(b) the Deed Administrators, acting reasonably, determine that it is no longer practicable to implement the DOCA and/or the Capital Raising for any reason,</p> <p>the Deed Administrators will:</p> <p>(c) convene a meeting of creditors to vary the DOCA; and, in the event of creditors not agreeing to vary the DOCA, then</p> <p>(d) seek to and obtain Court Orders to terminate or vary the DOCA.</p>
<p>14 Other terms</p>	<p>14.1 Any other terms and conditions contained in Schedule 8A of the Regulations be retained so as to give effect of the DOCA;</p> <p>14.2 Section 440D of the Act will apply while the DOCA is on foot.</p> <p>14.3 In this term sheet, "Business Day" means a day that is not a Saturday, Sunday or public holiday in Perth, Western Australia or Sydney, New South Wales.</p>

SCHEDULE : Proposal Steps Plan

- 1 Discussion and in-principle advice from ASX re proposal and required approvals / waivers / conditions to re-quotation.
- 2 Second creditors meeting - approval of DOCA.
- 3 Receiver sale of Mineral Hill
- 4 Entry into the transaction contemplated under clause 1.1(k), to effect a release of the security held by MRI and Quintana over the shares in KBL Sorby Hills Pty Ltd
- 5 Court approval of transfers of Shares to creditors, Proponent and Underwriter (subject to Minimum Subscription being raised).
- 6 ASX waiver obtained to permit Noteholders to participate in Entitlement Offer under the exception to Listing Rule 7.1 (or nominal placement of Shares to Noteholders).
- 7 Launch Entitlement Offer(s) to Shareholders and Noteholders.
- 8 Invite Noteholders to elect by notice to participate in the debt for equity swap effected via a Court transfer of Shares.
- 9 Receipt of applications for Minimum Subscription.
- 10 Receipt of Noteholder debt for equity swap election notices.
- 11 Entry into new NSR and security arrangements by Quintana, , conditional on completion of the Capital Raising.
- 12 Establish Creditors Trust.
- 13 Completion:
 - 13.1 Issue of Entitlement Offer Shares; and
 - 13.2 Implementation of Court approved transfers.
- 14 EGM to approve consolidation, Placements of Shares to Creditors Trust (dependant on subscription amount/ ASX waiver) and option issues.
- 15 Implement consolidation of capital in accordance with ASX timetable
- 16 Completion of DOCA.
- 17 Reinstatement to trading/official list.
- 18 Creditors' Trust sells Shares - proceeds distributed to Trust Creditors.

Signed by:

Signed by **Everblu Capital Pty Ltd ACN 612 793 683** in accordance with section 127 of the *Corporations Act 2001* (Cth) and by:

Signature of director

Name of director (print)

Dated: January 2017

ANNEXURE A: Offer Management and Underwriting Agreement Term Sheet

Term	Description
Issuer	KBL Mining Limited ACN 129 954 365 (Company or KBL)
Underwriter	Anglo Menda Pty Limited ACN 608 554 052 (Underwriter)
Lead Manager	Everblu Capital Pty Limited ABN 23 612 793 683 (Lead Manager)
Defined terms	Any capitalised terms that are not defined in this term sheet have the meaning given to those terms in the attached Proposal.
Capital Raising	KBL is seeking to raise \$5,600,000 for the purposes of the recapitalisation of KBL in accordance with the terms set out in the Proposal (Capital Raising).
Services provided by Underwriter	The Underwriter agrees to underwrite \$3,600,000 of the Capital Raising.
Services provided by Lead Manager	The Lead Manager agrees to provide lead manager services in relation to the Capital Raising including to use reasonable endeavours to raise \$5,600,000 under the Capital Raising and place any shortfall not taken up by Shareholders or Noteholders under the Capital Raising.
Fees	<p>The Underwriter will receive the following fees:</p> <ul style="list-style-type: none"> • the transfer of 692,273,321 pre consolidation ordinary shares in the Company (Shares) from existing Shareholders under the court approved transfers; • 0.7% Net Smelter Royalty; • subject to any necessary Shareholder approvals, such number of options as equals 35% of the number of Shares issued under the Capital Raising (post Consolidation) with a term of 5 years and an exercise price of 30 cents. <p>The Lead Manager will receive the following fees:</p> <ul style="list-style-type: none"> • the transfer of 296,688,566 pre consolidation ordinary Shares from existing Shareholders under the court approved transfers; • 0.3% Net Smelter Royalty; and • subject to any necessary Shareholder approvals, such number of options as equals 15% of the number of Shares issued under the Capital Raising (post Consolidation) with a term of 5 years and an exercise price of 30 cents.
Formal documentation	<p>The parties will enter into a formal document which will contain terms that substantially reflect the terms set out in this term sheet together with other terms that are customary for an agreement of this nature (ie. the Offer Management and Underwriting Agreement) including:</p> <ul style="list-style-type: none"> • conditions precedent; • representations, warranties and undertakings provided by the

	<p>Company;</p> <ul style="list-style-type: none">• standard termination events which allow the Lead Manager to terminate the Offer Management and Underwriting Agreement;• sub-underwriting arrangements;• underwriter and lead manager fees;• the Underwriter's underwriting obligations and shortfall arrangements; and• confidentiality obligations.
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ANNEXURE B: Indicative Capital Structure Table

Cash payments and Creditors Trust Summary under various minimum subscription levels

Creditor	Total Transaction											
	Existing Shares	Shares re-directed by Administrator	Shareholding post redirection	Shareholding post 71:1 consolidation	New Shares Issued			Total Shares issued	Options direct to financiers	NSR direct to creditor and financiers	Assumed share value (20c issue price)	Total
					@ 20c for cash	Use of Cash	to pay creditors					
3.6M minimum subscription												
ASX requirements						(2,100,000)						2,100,000
MRI						(1,000,000)						1,000,000
Administrator (1)						(500,000)						500,000
Priority Creditors (2)		317,880,607	317,880,607	4,481,872	0	5,000,000	9,481,872			1,896,374	1,896,374	1,896,374
CN Holders		394,396,235	394,396,235	5,560,683	0		5,560,683			1,112,137	1,112,137	1,112,137
Trade Creditors (1)		538,917,428	538,917,428	7,598,321	0		7,598,321			1,519,664	1,519,664	1,519,664
Quintana		353,200,674	353,200,674	4,979,858	0		4,979,858		2.00%	995,972	995,972	995,972
Shareholders	2,658,150,436	(2,593,356,832)	64,793,604	913,540	0		913,540			182,708	182,708	182,708
3.6M underwritten Rights issue				18,000,000	3,600,000		18,000,000					
Underwriter		692,273,321	692,273,321	9,760,521	0		9,760,521	6,300,000	0.70%	1,952,104	1,952,104	1,952,104
Proponent		296,688,566	296,688,566	4,183,080	0		4,183,080	2,700,000	0.30%	836,616	836,616	836,616
	2,658,150,436	0	2,658,150,436	37,477,875	18,000,000	0	5,000,000	60,477,875	9,000,000	3.00%	8,495,575	12,095,575

Affecting Creditors Trust Only		
Cash	Assumed Share value	Value in the Trust
1,000,000	0	1,000,000
500,000	0	500,000
0	1,896,374	1,896,374
0	1,112,137	1,112,137
0	1,519,664	1,519,664
1,500,000	4,528,175	6,028,175

4.1M minimum subscription

ASX requirements						(2,600,000)						2,600,000
MRI						(1,000,000)						1,000,000
Administrator (1)						(500,000)						500,000
Priority Creditors (2)		317,880,607	317,880,607	4,481,872	0	5,000,000	9,481,872			1,896,374	1,896,374	1,896,374
CN Holders		394,396,235	394,396,235	5,560,683	0		5,560,683			1,112,137	1,112,137	1,112,137
Trade Creditors (1)		538,917,428	538,917,428	7,598,321	0		7,598,321			1,519,664	1,519,664	1,519,664
Quintana		353,200,674	353,200,674	4,979,858	0		4,979,858		2.00%	995,972	995,972	995,972
Shareholders	2,658,150,436	(2,593,356,832)	64,793,604	913,540	0		913,540			182,708	182,708	182,708
3.6M underwritten Rights issue				20,500,000	4,100,000		20,500,000					
Underwriter		692,273,321	692,273,321	9,760,521	0		9,760,521	7,175,000	0.70%	1,952,104	1,952,104	1,952,104
Proponent		296,688,566	296,688,566	4,183,080	0		4,183,080	3,075,000	0.30%	836,616	836,616	836,616
	2,658,150,436	0	2,658,150,436	37,477,875	20,500,000	0	5,000,000	62,977,875	10,250,000	3.00%	8,495,575	12,595,575

1,000,000	0	1,000,000
500,000	0	500,000
0	1,896,374	1,896,374
0	1,112,137	1,112,137
0	1,519,664	1,519,664
1,500,000	4,528,175	6,028,175

4.6M minimum subscription

ASX requirements						(3,100,000)						3,100,000
MRI						(1,000,000)						1,000,000
Administrator (1)						(500,000)						500,000
Priority Creditors (2)		317,880,607	317,880,607	4,481,872	0	5,000,000	9,481,872			1,896,374	1,896,374	1,896,374
CN Holders		394,396,235	394,396,235	5,560,683	0		5,560,683			1,112,137	1,112,137	1,112,137
Trade Creditors (1)		538,917,428	538,917,428	7,598,321	0		7,598,321			1,519,664	1,519,664	1,519,664
Quintana		353,200,674	353,200,674	4,979,858	0		4,979,858		2.00%	995,972	995,972	995,972
Shareholders	2,658,150,436	(2,593,356,832)	64,793,604	913,540	0		913,540			182,708	182,708	182,708
3.6M underwritten Rights issue				23,000,000	4,600,000		23,000,000					
Underwriter		692,273,321	692,273,321	9,760,521	0		9,760,521	8,050,000	0.70%	1,952,104	1,952,104	1,952,104
Proponent		296,688,566	296,688,566	4,183,080	0		4,183,080	3,450,000	0.30%	836,616	836,616	836,616
	2,658,150,436	0	2,658,150,436	37,477,875	23,000,000	0	5,000,000	65,477,875	11,500,000	3.00%	8,495,575	13,095,575

1,000,000	0	1,000,000
500,000	0	500,000
0	1,896,374	1,896,374
0	1,112,137	1,112,137
0	1,519,664	1,519,664
1,500,000	4,528,175	6,028,175

Cash payments and Creditors Trust Summary under various minimum subscription levels

Creditor	Total Transaction											
	Existing Shares	Shares re-directed by Administrator	Shareholding post redirection	Shareholding post 71:1 consolidation	New Shares Issued			Total Shares issued	Options direct to financiers	NSR direct to creditor and financiers	Assumed share value (20c issue price)	Total
					@ 20c for cash	Use of Cash	to pay creditors					

Affecting Creditors Trust Only		
Cash	Assumed Share value	Value in the Trust

5.1M minimum subscription

ASX requirements					(3,100,000)							3,100,000
MRI					(1,000,000)							1,000,000
Administrator (1)					(500,000)							500,000
Priority Creditors (2)		317,880,607	317,880,607	4,481,872	(500,000)	2,500,000	6,981,872			1,396,374	1,896,374	1,896,374
CN Holders		394,396,235	394,396,235	5,560,683	0		5,560,683			1,112,137	1,112,137	1,112,137
Trade Creditors (1)		538,917,428	538,917,428	7,598,321	0		7,598,321			1,519,664	1,519,664	1,519,664
Quintana		353,200,674	353,200,674	4,979,858	0		4,979,858	2.00%		995,972	995,972	995,972
Shareholders	2,658,150,436	(2,593,356,832)	64,793,604	913,540	0		913,540			182,708	182,708	182,708
3.6M underwritten Rights issue					25,500,000	5,100,000	25,500,000					
Underwriter		692,273,321	692,273,321	9,760,521	0		9,760,521	8,925,000	0.70%	1,952,104	1,952,104	1,952,104
Proponent		296,688,566	296,688,566	4,183,080	0		4,183,080	3,825,000	0.30%	836,616	836,616	836,616
	2,658,150,436	0	2,658,150,436	37,477,875	25,500,000	0	2,500,000	65,477,875	12,750,000	3.00%	7,995,575	13,095,575

1,000,000	0	1,000,000
500,000	0	500,000
500,000	1,396,374	1,896,374
0	1,112,137	1,112,137
0	1,519,664	1,519,664
2,000,000	4,028,175	6,028,175

5.6M minimum subscription

ASX requirements					(3,100,000)							3,100,000
MRI					(1,000,000)							1,000,000
Administrator (1)					(500,000)							500,000
Priority Creditors (2)		317,880,607	317,880,607	4,481,872	(1,000,000)	0	4,481,872			896,374	1,896,374	1,896,374
CN Holders		394,396,235	394,396,235	5,560,683	0		5,560,683			1,112,137	1,112,137	1,112,137
Trade Creditors (1)		538,917,428	538,917,428	7,598,321	0		7,598,321			1,519,664	1,519,664	1,519,664
Quintana		353,200,674	353,200,674	4,979,858	0		4,979,858	2.00%		995,972	995,972	995,972
Shareholders	2,658,150,436	(2,593,356,832)	64,793,604	913,540	0		913,540			182,708	182,708	182,708
3.6M underwritten Rights issue					28,000,000	5,600,000	28,000,000					
Underwriter		692,273,321	692,273,321	9,760,521	0		9,760,521	9,800,000	0.70%	1,952,104	1,952,104	1,952,104
Proponent		296,688,566	296,688,566	4,183,080	0		4,183,080	4,200,000	0.30%	836,616	836,616	836,616
	2,658,150,436	0	2,658,150,436	37,477,875	28,000,000	0	0	65,477,875	14,000,000	3.00%	7,495,575	13,095,575

1,000,000	0	1,000,000
500,000	0	500,000
1,000,000	896,374	1,896,374
0	1,112,137	1,112,137
0	1,519,664	1,519,664
2,500,000	3,528,175	6,028,175

- (1) In the event the Administrator fees are greater than \$500,000 then the amount over \$500,000 will be deducted from the realisation of the sale of the Trade Creditor shares
(2) In the event the selling of the shares to not realise the Priority creditor amount owed more shares will be issued to ensure the Priority creditor debt is extinguished

M: ARITA guidance sheet for creditors
on approving remuneration in external
administrations



ASIC

Australian Securities & Investments Commission

INFORMATION SHEET 85

Approving fees: a guide for creditors

If a company is in financial difficulty, it can be put under the control of an independent external administrator.

This information sheet gives general information for creditors on the approval of an external administrator's fees in a liquidation of an insolvent company, voluntary administration or deed of company arrangement (other forms of external administration are not discussed in this information sheet). It outlines the rights that creditors have in the approval process.

Entitlement to fees and costs

A liquidator, voluntary administrator or deed administrator (i.e. an 'external administrator') is entitled to be:

- paid reasonable *fees*, or remuneration, for the work they perform, once these fees have been approved by a creditors' committee, creditors or a court, and
- reimbursed for out-of-pocket *costs* incurred in performing their role (these costs do not need creditors' committee, creditor or court approval).

External administrators are only entitled to an amount of fees that is reasonable for the work that they and their staff properly perform in the external administration. What is reasonable will depend on the type of external administration and the issues that need to be resolved. Some are straightforward, while others are more complex.

External administrators must undertake some tasks that may not directly benefit creditors. These include reporting potential breaches of the law and lodging a detailed listing of receipts and payments with ASIC every six months. The external administrator is entitled to be paid for completing these statutory tasks.

For more on the tasks involved, see ASIC's information sheets INFO 45 *Liquidation: a guide for creditors* and INFO 74 *Voluntary administration: a guide for creditors*.

Out-of-pocket costs that are commonly reimbursed include:

Important note: This information sheet contains a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances. You will need a qualified professional adviser to take into account your particular circumstances and to tell you how the law applies to you.

- legal fees
- valuer's, real estate agent's and auctioneer's fees
- stationery, photocopying, telephone and postage costs
- retrieval costs for recovering the company's computer records, and
- storage costs for the company's books and records.

Creditors have a direct interest in the level of fees and costs, as the external administrator will, generally, be paid from the company's available assets before any payments to creditors. If there are not enough assets, the external administrator may have arranged for a third party to pay any shortfall. As a creditor, you should receive details of such an arrangement. If there are not enough assets to pay the fees and costs, and there is no third party payment arrangement, any shortfall is not paid.

Who may approve fees

Who may approve fees depends on the type of external administration: see Table 1. The external administrator must provide sufficient information to enable the relevant decision-making body to assess whether the fees are reasonable.

Table 1: Who may approve fees

	Creditors' committee	Creditors	Court
Administrator in a voluntary administration	✓ ¹	✓	✓
Administrator of a deed of company arrangement	✓ ¹	✓	✓
Creditors' voluntary liquidator	✓ ¹	✓ ⁵	✗ ³
Court-appointed liquidator	✓ ¹	✓ ^{4, 5}	✓ ²

¹ If there is one.

² If there is no approval by the committee or the creditors.

³ Unless an application is made for a fee review.

⁴ If there is no creditors' committee or the committee fails to approve the fees.

⁵ If insufficient creditors turn up to the meeting called by the liquidator to approve fees, the liquidator is entitled to be paid up to a maximum of \$5000, or more if specified in the Corporations Regulations 2001.

Creditors' committee approval

If there is a creditors' committee, members are chosen by a vote of creditors as a whole. In approving the fees, the members represent the interests of all the creditors, not just their own individual interests.

There is not a creditors' committee in every external administration. A creditors' committee makes its decision by a majority in number of its members present at a meeting, but it can only act if a majority of its members attend.

To find out more about creditors' committees and how they are formed, see ASIC's information sheets INFO 45 *Liquidation: a guide for creditors*, INFO 74 *Voluntary administration: a guide for creditors* and INFO 41 *Insolvency: a glossary of terms*.

Creditors' approval

Creditors approve fees by passing a resolution at a creditors' meeting. Unless creditors call for a poll, the resolution is passed if a simple majority of creditors present and voting, in person or by proxy,

indicate that they agree to the resolution. Unlike where acting as committee members, creditors may vote according to their individual interests.

If a poll is taken, rather than a vote being decided on the voices or by a show of hands, a majority in *number* and *value* of creditors present and voting must agree. A poll requires the votes of each creditor to be recorded.

A separate resolution of creditors is required for approving fees for an administrator in a voluntary administration and an administrator of a deed of company arrangement, even if the administrator is the same person in both administrations.

A proxy is where a creditor appoints someone else to represent them at a creditors' meeting and to vote on their behalf. A proxy can be either a *general proxy* or a *special proxy*. A general proxy allows the person holding the proxy to vote as they wish on a resolution, while a special proxy directs the proxy holder to vote in a particular way.

A creditor will sometimes appoint the external administrator as a proxy to vote on the creditor's behalf. An external administrator, their partners or staff must not use a general proxy to vote on approval of their fees; they must hold a special proxy in order to do this. They must vote all special proxies as directed, even those against approval of their fees.

Calculation of fees

Fees may be calculated using one of a number of different methods, such as:

- on the basis of *time spent* by the external administrator and their staff
- a quoted *fixed fee*, based on an upfront estimate, or
- a percentage of asset realisations.

Charging on a time basis is the most common method. External administrators have a scale of hourly rates, with different rates for each category of staff working on the external administration, including the external administrator.

If the external administrator intends to charge on a time basis, you should receive a copy of these hourly rates soon after their appointment and before you are asked to approve the fees.

The external administrator and their staff will record the time taken for the various tasks involved, and a record will be kept of the nature of the work performed.

It is important to note that the hourly rates do not represent an hourly wage for the external administrator and their staff. The external administrator is running a business—an insolvency practice—and the hourly rates will be based on the cost of running the business, including overheads such as rent for business premises, utilities, wages and superannuation for staff who are not charged out at an hourly rate (such as personal assistants), information technology support, office equipment and supplies, insurances, taxes, and a profit.

External administrators are professionals who are required to have qualifications and experience, be independent and maintain up-to-date skills. Many of the costs of running an insolvency practice are fixed costs that must be paid, even if there are insufficient assets available to pay the external administrator for their services. External administrators compete for work and their rates should reflect this.

These are all matters that committee members or creditors should be aware of when considering the fees presented. However, regardless of these matters, creditors have a right to question the external administrator about the fees and whether the rates are negotiable.

It is up to the external administrator to justify why the method chosen for calculating fees is an appropriate method for the particular external administration. As a creditor, you also have a right to question the external administrator about the calculation method used and how the calculation was made.

Report on proposed fees

When seeking approval of fees, the external administrator must send committee members/creditors a report with the notice of meeting setting out:

- information that will enable the committee members/creditors to make an informed assessment of whether the proposed fees are reasonable
- a summary description of the major tasks performed, or to be performed, and
- the costs associated with each of these tasks.

Committee members/creditors may be asked to approve fees for work already performed or based on an estimate of work yet to be carried out.

If the work is yet to be carried out, it is advisable to set a maximum limit ('cap') on the amount that the external administrator may receive. For example, future fees calculated according to time spent may be approved on the basis of the number of hours worked at the rates charged (as set out in the provided rate scale) up to a cap of \$X. If the work involved then exceeds this figure, the external administrator will have to ask the creditors' committee/creditors to approve a further amount of fees, after accounting for the fees already incurred.

Deciding if fees are reasonable

If asked to approve an amount of fees either as a committee member or by resolution at a creditors' meeting, your task is to decide if that amount of fees is reasonable, given the work carried out in the external administration and the results of that work.

You may find the following information from the external administrator useful in deciding if the fees claimed are reasonable:

- the method used to calculate fees
- the major tasks that have been performed, or are likely to be performed, for the fees
- the fees/estimated fees (as applicable) for each of the major tasks
- the size and complexity (or otherwise) of the external administration
- the amount of fees (if any) that have previously been approved
- if the fees are calculated, in whole or in part, on a time basis:
 - the period over which the work was, or is likely to be performed
 - if the fees are for work that has already been carried out, the time spent by each level of staff on each of the major tasks
 - if the fees are for work that is yet to be carried out, whether the fees are capped.

If you need more information about fees than is provided in the external administrator's report, you should let them know before the meeting at which fees will be voted on.

What can you do if you think the fees are not reasonable?

If you do not think the fees being claimed are reasonable, you should raise your concerns with the external administrator. It is your decision whether to vote in favour of, or against, a resolution to approve fees.

Generally, if fees are approved by a creditors' committee/creditors and you wish to challenge this decision, you may apply to the court and ask the court to review the fees. Special rules apply to court liquidations.

You may wish to seek your own legal advice if you are considering applying for a court review of the fees.

Reimbursement of out-of-pocket costs

An external administrator should be very careful incurring costs that must be paid from the external administration—as careful as if they were dealing with their own money. Their report on fees should also include information on the out-of-pocket costs of the external administration.

If you have questions about any of these costs, you should ask the external administrator and, if necessary, bring it up at a creditors' committee/creditors' meeting. If you are still concerned, you have the right to ask the court to review the costs.

Queries and complaints

You should first raise any queries or complaints with the external administrator. If this fails to resolve your concerns, including any concerns about their conduct, you can lodge a complaint with ASIC at www.asic.gov.au/complain, or write to:

ASIC Complaints
PO Box 9149
TRARALGON VIC 3844

ASIC will usually not become involved in matters of commercial judgement by an external administrator. Complaints against companies and their officers can also be made to ASIC. For other enquiries, email ASIC through infoline@asic.gov.au, or call ASIC's Infoline on 1300 300 630 for the cost of a local call.

To find out more

For an explanation of terms used in this information sheet, see ASIC's information sheet INFO 41 *Insolvency: a glossary of terms*. For more on external administration, see ASIC's related information sheets at www.asic.gov.au/insolvencyinfosheets:

- INFO 74 *Voluntary administration: a guide for creditors*
- INFO 75 *Voluntary administration: a guide for employees*
- INFO 45 *Liquidation: a guide for creditors*
- INFO 46 *Liquidation: a guide for employees*
- INFO 54 *Receivership: a guide for creditors*
- INFO 55 *Receivership: a guide for employees*
- INFO 43 *Insolvency: a guide for shareholders*
- INFO 42 *Insolvency: a guide for directors*
- INFO 84 *Independence of external administrators: a guide for creditors*

These are also available from the Insolvency Practitioners Association (IPA) website at www.ipaa.com.au. The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

N: Remuneration report

Remuneration request report

Declaration

We, Matthew Woods and Stephen Vaughan, of KPMG, have undertaken a proper assessment of this remuneration claim for my appointment as joint and several voluntary administrators of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) in accordance with the law and applicable professional standards. I am satisfied that the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of the Administration.

Executive Summary

The purpose of this report is to provide creditors with a report detailing the work completed for the period, and associated fees. At the second meeting of creditors we will be asking creditors to consider the following resolutions:

- **Resolution 1** for the approval of our remuneration for the period 19 September 2016 to 13 January 2017
- **Resolution 2** for the approval of our prospective remuneration for the period 14 January 2017 to 3 February 2017
- **Resolution 3** for the approval of our remuneration as Deed Administrators for the period 4 February 2017 onwards, should creditors resolve at the meeting to enter into the proposed Deed of Company Arrangement

We note that the KBL Committee of Creditors resolved at their third meeting with us to approve our remuneration for the period 8 to 18 September 2016 on behalf of creditors, we provide detail in this report as to work completed during that period for your reference.

Remuneration	Report reference	Amount \$ (ex GST)
<i>Past remuneration approved by the Committee of Creditors</i> Approved remuneration for the period 8 to 18 September 2016	<i>Page 2</i>	288,331.50
<i>Current remuneration approval sought from creditors</i> <i>Voluntary Administration</i> Resolution 1: retrospective remuneration incurred for period 19 September 2016 to 13 January 2017	<i>Page 4</i>	506,846.00
Resolution 2: prospective remuneration for the period 14 January 2017 to 3 February 2017	<i>Page 9</i>	50,000.00
Total remuneration – Voluntary Administration		845,177.50
<i>Deed of Company Arrangement (if selected by creditors)</i> Resolution 3: prospective remuneration for the period 4 February 2017 onwards as Deed Administrators should creditors resolve to enter into the proposed Deed of Company Arrangement	<i>Page 11</i>	200,000.00

Description of work completed

Past remuneration approved by the Committee of Creditors

Work completed for the period 8 September 2016 to 18 September 2016

Administrators' remuneration for the period 8 September 2016 to 18 September 2016 (approved by CoC)		
Task Area	General Description	Including, but not limited to:
Assets 100.20 hours \$41,570.50	Mine and tenements	<ul style="list-style-type: none"> Attended mine site and secured physical access Preserved value of Mineral Hill and took steps to recommence operations Reviewed Sorby Hills Joint Venture agreement and sought discussions with offtake partner Conducted an assessment of environmental risks and took steps to ensure risks mitigated Conducted a review of tenements to ensure good standing and asset preservation
	Plant and Equipment	<ul style="list-style-type: none"> Reviewed KBL asset listings requested from management Physically verified assets at mine site Liaised with valuers with regard to realisation strategies and estimated recoverable value of assets
	Cash	<ul style="list-style-type: none"> Took possession of cash at bank at appointment to ensure all ongoing expenditure approved in accordance with Administrators' trading strategy
	Insurance	<ul style="list-style-type: none"> Reviewed existing insurances and arranged continuation of appropriate insurances to ensure trading continuity
	Stock	<ul style="list-style-type: none"> Identified and secured trading stock by way of stock take Tracked stock usage for retention of title costs
Creditors 229.20 hours \$98,561.00	Creditor enquiries	<ul style="list-style-type: none"> Established centralised KPMG communication email for creditors, employees, and noteholders Prepared and maintained creditors' claims and contact information
	Creditor reports	<ul style="list-style-type: none"> Prepared and distributed circular to creditors dated 8 September 2016 notifying of Administrators' appointment Prepared and distributed circular to creditors dated 12 September 2016 notifying of first meeting of creditors Lodged a copy of each circular to creditors on KBL ASX announcements
	Dealing with proofs of debt	<ul style="list-style-type: none"> Received, processed and filed informal Proofs of Debt and Proxy forms from creditors for the first meeting of creditors
	Meetings of Creditors	<ul style="list-style-type: none"> Convened, and prepared for, the first meeting of creditors at both Sydney and Condobolin on 20 September 2016 including preparation of presentation to creditors, arranging logistics of meeting including booking venues in both Sydney and Condobolin, receipting and recording informal proofs of debts
	Dealings with secured creditor	<ul style="list-style-type: none"> Liaised with secured creditor, Quintana, by way of two updates regarding trading and status of KBL

		<ul style="list-style-type: none"> Produced cash flow forecasts and risk issues for reports to secured creditor Made and substantiated a request for funding from the secured creditor to continue trading
Employees 32.60 hours \$12,085.00	Employee enquiries	<ul style="list-style-type: none"> Received, responded to and followed up enquiries from employees with regard to the Administration process and KBL's affairs
	Ongoing management	<ul style="list-style-type: none"> Managed employee queries
	Payroll	<ul style="list-style-type: none"> Processed payroll for KBL for the period 8 to 13 September 2016 Arranged employee insurances Managed all statutory employment related queries
Trade On 226.80 hours \$108,367.50	Sale of dore	<ul style="list-style-type: none"> Managed the sale of gold dore and concentrate during the period 8 to 18 September 2016 Liaised with various stakeholders including potential purchasers and suppliers to facilitate dore sale
	Negotiation of sale of concentrate	<ul style="list-style-type: none"> Entered into discussions with existing offtake party, and arranged alternative buyers for gold concentrate Liaised with 6 purchasers Facilitated assay and transport arrangements Negotiated with a preferred bidder in relation to sale of concentrate which was left to Receivers to finalise
	Mine maintenance	<ul style="list-style-type: none"> Arranged for pumping of mine pit following rainfall with a view to recommencing operations
	Purchase orders	<ul style="list-style-type: none"> Maintained purchase order register for ongoing costs incurred by the Administrators, and subsequently arranged payment for liabilities incurred during trading period
	Information technology	<ul style="list-style-type: none"> Worked with IT and communications suppliers to ensure all IT and communication continued without disruption
	Site visits	<ul style="list-style-type: none"> Attended Mineral Hill site to manage the site during the period 8 to 18 September 2016 Attended KBL Head Office to manage head office related items for the period 8 to 18 September 2016
	Cashflow	<ul style="list-style-type: none"> Prepared a forecast cashflow for the business Modelled funding scenarios for the business Sought additional funding from secured creditor
Investigation 22.80 hours \$8,742.50	Conducting investigations	<ul style="list-style-type: none"> Requested a RATA from each director
	Interviews and inquiries	<ul style="list-style-type: none"> Held discussions with management, staff, suppliers and other parties
	Forensic data capture	<ul style="list-style-type: none"> Conducted a forensic back-up of KBL's server
Administration	Correspondence	<ul style="list-style-type: none"> Attended to miscellaneous correspondence with stakeholders in the administration and KBL's affairs

45.30 hours \$19,005.00	Document maintenance/file review/checklist	<ul style="list-style-type: none"> Created and maintained administration records including administration files and checklists
	Insurance	<ul style="list-style-type: none"> Corresponded with insurer regarding initial and ongoing insurance requirements Reviewed insurance policies Corresponded with previous brokers
	Shareholder enquires	<ul style="list-style-type: none"> Liaised with shareholders regarding requests for information Liaised with share registry regarding continued supply of services
	Resignation of Secretary	<ul style="list-style-type: none"> Notified ASIC and updated ASX management listing
	Bank account administration	<ul style="list-style-type: none"> Prepared correspondence to St George bank freezing KBL related bank accounts and credit cards upon appointment Prepared correspondence to open new trading account for KBL Mining Limited (Administrators Appointed)
	ATO and other statutory reporting	<ul style="list-style-type: none"> Notified the ATO of our appointment of Administrators
	Ongoing planning and project management	<ul style="list-style-type: none"> Determined administration strategy and ongoing general review and oversight of the status and conduct of the administration
Total hours: 656.90 Total \$ excl GST: 288,331.50 (approved by Committee of Creditors at meeting on 8 December 2016)		

Current remuneration approval sought from Creditors

Resolution 1: Administrators' retrospective remuneration for period 19 September 2016 to 13 January 2017

Administrators' remuneration for the period 19 September 2016 to 13 January 2017		
Task Area	General Description	Including, but not limited to:
Assets 61.0 hours \$25,915.50	Plant and Equipment	<ul style="list-style-type: none"> Reviewed KBL asset listings requested from management Liaised with valuers with regard to realisation strategies and estimated recoverable value of assets Liaised with suppliers regarding retention of title and adjudicated on validity of claims Liaised with leasers in relation to leased assets on site
	Lien management	<ul style="list-style-type: none"> Liaised with the Receivers in respect of Administrators' statutory lien over certain of the assets of KBL
	Insurance	<ul style="list-style-type: none"> Arranged finalisation of insurance in respect of trading period
	Expressions of interest	<ul style="list-style-type: none"> Managed handover of expressions of interest to the Receivers
	DOCA proposal	<ul style="list-style-type: none"> Liaised with DOCA proponents regarding recapitalisation proposal
	Handover to Receivers	<ul style="list-style-type: none"> Arranged handover of KBL assets to the Receivers upon their appointment
	Cash	<ul style="list-style-type: none"> Managed and reconciled cash at bank.
Creditors 433.30 hours \$174,918.00	Creditor enquiries	<ul style="list-style-type: none"> Received, responded to and followed up enquiries from creditors with regard to the Administration process and KBL's affairs
	Creditor communication	<ul style="list-style-type: none"> Maintained and monitored a centralised KPMG communication email for creditors, employees, and noteholders
	Creditor reports	<ul style="list-style-type: none"> Prepared and distributed circular to creditors dated 19 September 2016 notifying of appointment of Receivers and Managers Prepared and distributed circular to creditors dated 5 October 2016 notifying of extension of convening period Prepared and distributed circular to creditors dated 24 November 2016 notifying of extension of convening period Prepared and distributed circular to creditors dated 13 January 2017 notifying of extension of convening period Prepared and distributed circular to creditors dated 19 September 2016 notifying of appointment of Receivers and Managers Prepared this report in accordance with section 439A of the Act and all supporting analysis including remuneration reporting
	ASX management	<ul style="list-style-type: none"> Lodged an ASX announcement in respect of each of 4 circulars to creditors Lodged a copy of each circular to creditors on KBL ASX announcements (4 circulars)

	Dealing with proofs of debt	<ul style="list-style-type: none"> Received, processed and filed informal Proofs of Debt and Proxy forms from creditors for the first meeting of creditors Liaised with creditors in respect of Proofs of Debt submitted after first meeting of creditors
	Estimated Outcomes	<ul style="list-style-type: none"> Prepared detailed analysis for estimated outcomes for creditors in DOCA vs Liquidation.
	Meetings of Creditors	<ul style="list-style-type: none"> Convened, prepared for, and held the first meeting of creditors at both Sydney and Condobolin on 20 September 2016 Prepared and lodge minutes of meeting with ASIC Prepared for a second meeting of creditors on 23 January 2016, subsequently postponed due to extension of convening period
	Committee of Creditors	<ul style="list-style-type: none"> Prepared for and held a teleconference meeting of the Committee of Creditors on 30 September 2016 Prepared for and held a teleconference meeting of the Committee of Creditors on 23 November 2016 Prepared for and held a teleconference meeting of the Committee of Creditors on 8 December 2016 Prepared for and held a teleconference meeting of the Committee of Creditors on 13 January 2016 Lodged meeting notices and minutes for each of meetings of committee of creditors with ASIC
	Shareholder enquires	<ul style="list-style-type: none"> Liaised with shareholders regarding requests for information Liaised with share registry regarding continued supply of services
Employees 25.80 hours \$8,412.50	Employee enquiries	<ul style="list-style-type: none"> Received, responded to and followed up enquiries from employees with regard to the Administration process and KBL's affairs
	Other employee related issues	<ul style="list-style-type: none"> Processed pay slips for employees in respect of 8 September 2016 to 13 September 2016 Liaised with Fair Entitlement Guarantee Scheme regarding employee entitlements
Trade on 222.10 hours \$91,347.5	Sale of concentrate	<ul style="list-style-type: none"> Handed over dealings in respect of potential purchases and suppliers to facilitate concentrate sale to Receivers
	Purchase orders	<ul style="list-style-type: none"> Managed the review of suppliers invoices in respect of purchase order register for costs incurred by the Administrators in operating KBL Arranged payment for liabilities incurred during trading period
	Site visits	<ul style="list-style-type: none"> Handed over KBL sites to Receivers
	Retention of Title claims	<ul style="list-style-type: none"> Prepared and distributed letter to all suppliers with potential Retention of Title claims against assets of KBL

		<ul style="list-style-type: none"> • Liaised with suppliers in respect of Retention of Title claims • Reviewed the PPSR in respect of security registrations against KBL assets
	Leased assets	<ul style="list-style-type: none"> • Prepared and distributed letter to lessors in respect of amounts owing in respect of their services including the statutory rent-free period afforded to Administrators • Disclaimed leases where determined appropriate • Reviewed invoices submitted by lessors for accurate reflection of rent-free period • Arranged payment of all approved invoices through the Receivers
	Statement of position	<ul style="list-style-type: none"> • Prepared a statement of position which reflected the liabilities incurred by the Administrators for the Receivers
	Cash flow management	<ul style="list-style-type: none"> • Close out of cash flow tracking following the appointment of Receivers
Investigations 185.10 hours \$72,882.50	Conducting investigations	<ul style="list-style-type: none"> • Reviewed RATA submitted by the Remaining Directors as a group dated 28 September 2016 • Reviewed RATA submitted by the Remaining Directors as a group dated 10 October 2016 to the Receivers and Managers • Liaised with Remaining Directors to confirm that 10 October 2016 RATA was most accurate reflection of the affairs of KBL • Reviewed, summarised and considered the Companies' historical financial position and performance • Reviewed publicly available information including ASIC, ASX records and other public databases • Conducted a preliminary investigation into solvency • Conducted a preliminary investigation into the conduct of the directors prior to our appointment on 8 September 2016 • Investigated whether any transactions with related parties existed • Preparation of an estimated outcome statement providing potential outcomes for creditors based on preliminary investigations
	Financial review	<ul style="list-style-type: none"> • Reviewed each of KBL annual reports including FY09, FY10, FY11, FY12, FY13, FY14, FY15, and preliminary FY16 accounts • Reviewed KBL management accounts as provided by management
	Interviews and inquiries	<ul style="list-style-type: none"> • Held discussions with management, staff, suppliers and other parties
	Forensic data	<ul style="list-style-type: none"> • Conducted a forensic back-up of KBL's server, conducted various email searches
	Recoveries	<ul style="list-style-type: none"> • Identified potential recoveries available through a liquidation action through investigation of KBL's management accounts and records • Held preliminary discussions with potential litigation funders.
	DOCA	<ul style="list-style-type: none"> • Reviewed DOCA in context of investigations and comparative against liquidation scenarios • Liaised with legal advisers of DOCA proponents, and Administrator legal advisers in respect of DOCA proposal

		<ul style="list-style-type: none"> • Held multiple discussions with Receivers in respect to DOCA requirements. • Analysed DOCA outcomes for different creditor classes.
Administration 348.00 hours \$133,370.00	Strategy and project management	<ul style="list-style-type: none"> • Prepared and maintained project plans, task lists, and checklists. Called and attended regular project team meetings to ensure smooth operation of the administration
	Creditor administration	<ul style="list-style-type: none"> • Monitored and maintained KBL specific email address, noting updates from creditors in respect of contact detail changes
	Insurance	<ul style="list-style-type: none"> • Corresponded with insurer regarding ongoing insurance requirements • Prepared and issued letter to director related insurer
	Statutory notices	<ul style="list-style-type: none"> • Prepared and lodged all statutory notices with ASIC
	Resignation of Remaining Directors	<ul style="list-style-type: none"> • Notified ASIC, prepared an ASX announcement, and updated ASX management listing regarding the resignation of the Remaining Directors on 17 November 2016
	Resignation of Resigned Directors	<ul style="list-style-type: none"> • Notified ASIC, and updated ASX management listing regarding the resignation of the Resigned Directors prior to our appointment
	Bank account administration	<ul style="list-style-type: none"> • Monthly account monitoring and reconciliation
Total hours: 1,275.30 Total \$ excl GST: 506,846.00		

Source: KPMG docID 28422906_11_rem report - historical

Resolution 2: Administrators' prospective remuneration for period 14 January 2017 to 3 February 2017

Administrators' prospective remuneration for the period 14 January 2017 to 3 February 2017		
Task area	General Description	Including, but not limited to:
Assets 34.2 hours \$15,004.50	Cash	<ul style="list-style-type: none"> Manage cash on hand and reconcile cash balances
	DOCA	<ul style="list-style-type: none"> Liaise with the Receivers and DOCA proponent in order to understand terms of DOCA proposal Negotiate with all parties to improve the DOCA proposal and outcomes for creditors Conduct detailed analysis into the DOCA proposal under various scenarios Begin drafting of long form DOCA.
Creditors 22.80 hours \$10,003.00	Creditor enquiries	<ul style="list-style-type: none"> Liaise with Committee of Creditors Receive, respond to and follow up enquiries from creditors with regard to the Administration process and KBL's affairs Prepare and maintain creditors' claims and contact information
	Dealing with proofs of debt	<ul style="list-style-type: none"> Receive, process and file informal Proofs of Debt and Proxy forms for the second meeting
	Meetings of Creditors	<ul style="list-style-type: none"> Prepare logistics and meeting venues for the second meeting of creditors Prepare slides for the meeting of creditors Travel to Condobolin to attend second meeting of creditors
	Creditor reports	<ul style="list-style-type: none"> Prepare this report in accordance with section 439A of the Act and all supporting analysis including remuneration reporting
	Committee of Creditors	<ul style="list-style-type: none"> Hold and lodge minutes for a committee of creditors meeting
	Shareholder enquiries	<ul style="list-style-type: none"> Liaise with shareholders regarding requests for information Liaise with share registry regarding continued supply of services
Employees 5.70 hours \$2,500.75	Employee enquiries	<ul style="list-style-type: none"> Receive, respond to and follow up enquiries from employees with regard to the Administration process and KBL's affairs
Trade on 5.70 hours \$2,500.75	Finalisation of close out of trading obligations	<ul style="list-style-type: none"> Prepare letter to Receivers in respect of Administrators' lien
Investigations 34.20 hours \$15,004.50	Statutory investigations	<ul style="list-style-type: none"> Conduct and finalise detailed investigations into the affairs of KBL Quantify potential insolvent trading and preference claims for creditors
	Litigation funding	<ul style="list-style-type: none"> Liaise with litigation funders with a view to discussing funding options in Liquidation Quantify and take advice on the prospects of recoveries in Liquidation Prepare estimated outcomes statements in light of litigation funding proposals
	Interviews and inquiries	<ul style="list-style-type: none"> Hold discussions with management, staff, suppliers and other parties
Administration 11.40 hours \$5,001.50	Correspondence	<ul style="list-style-type: none"> Attend to miscellaneous correspondence with stakeholders in the administration and KBL's affairs
	Document maintenance/file review/checklist	<ul style="list-style-type: none"> Maintain administration records including administration files and checklists

Bank account administration	<ul style="list-style-type: none"> • Prepare monthly bank reconciliation
ATO and other statutory reporting Resignation of Secretary	<ul style="list-style-type: none"> • Review GST rulings specific to the business and prepared BAS
Ongoing planning and project management	<ul style="list-style-type: none"> • Determine administration strategy and ongoing general review and oversight of the status and conduct of the administration
Total hours: 114.00	
Total \$ excl GST: 50,015.00	

Source: KPMG docID 28422906_11_14 Jan 17 to 3 Feb 17

Resolution 3: Should creditors resolve at the meeting the enter into the proposed Deed of Company Arrangement, approval of our remuneration as Deed Administrators for the period 4 February 2017 onwards

Deed Administrators' prospective remuneration for the period 4 February 2017 onwards		
Task area	General Description	Including, but not limited to:
Assets 196.00 hours \$80,430.00	Cash	<ul style="list-style-type: none"> Receipt and reconciliation of cash received from KBL following capital raising Receipt of cash following disposal of shares over time Ongoing reconciliation of cash and distribution to creditors
	Shares	<ul style="list-style-type: none"> Receipt of shares following the rights issue Ongoing disposal of shares over time to monetise position Receipt of advice on best realisation strategy for shares
	Noteholders	<ul style="list-style-type: none"> Arrange for allocation / transfer of shares to noteholders where debt for equity swap is elected
Creditors 147.00 hours \$60,322.50	Creditor correspondence	<ul style="list-style-type: none"> Continue to correspond with creditors and provide periodic updates on the progress of the DOCA
	Noteholders	<ul style="list-style-type: none"> Write to noteholders with further details on decision to accept a debt for equity swap
	Adjudication of claims	<ul style="list-style-type: none"> Write to creditors requesting formal proofs of debt Detailed adjudication of all creditors' claims based on formal proofs of debt received Request more information from creditors where necessary
Employees 49.00 hours \$20,107.50	Employee correspondence	<ul style="list-style-type: none"> Continue to correspond with employees and provide periodic updates on the progress of the DOCA
	Adjudication of claims	<ul style="list-style-type: none"> Write to creditors requesting formal proofs of debt Detailed adjudication of all employees' claims based on formal proofs of debt received Request more information from employees where necessary
Dividend 49.00 hours \$20,107.50	Creditors (including noteholders)	<ul style="list-style-type: none"> Preparation of correspondence to creditors advising of intention to declare dividend Advertisement of intention to declare dividend Obtain clearance from ATO to allow distribution of company assets Calculate and pay dividend and all relevant taxes
Investigations	Nil	
Administration 49.00 hours \$20,107.00	Manage creditors trust	<ul style="list-style-type: none"> Manage all requirements and obligations as trustee of the creditors trust
	ASIC and ASX obligations	<ul style="list-style-type: none"> Support KBL through detailed recapitalisation process as set out in appendix to this report
	Correspondence	<ul style="list-style-type: none"> Miscellaneous correspondence with stakeholders
	Document maintenance/file review /checklist	<ul style="list-style-type: none"> Filing of documents File reviews Updating checklists
	Insurance	<ul style="list-style-type: none"> Maintain insurance until deed terminates

Bank account administration	<ul style="list-style-type: none"> ● Preparing correspondence ● Requesting bank statements ● Bank account reconciliations ● Correspondence with bank regarding specific transfers
ASIC Lodgements / other forms	<ul style="list-style-type: none"> ● Preparation and lodgement of all statutory requirements with ASIC ● Lodge notice that DOCA wholly effectuated
Finalisation	<ul style="list-style-type: none"> ● Notifying ATO of finalisation ● Cancelling ABN/GST/PAYG registration ● Completing checklists
ATO and other statutory reporting	<ul style="list-style-type: none"> ● Preparing the BAS
Planning / Review	<ul style="list-style-type: none"> ● Discussions regarding status of deed administration
Total hours: 490.00	
Total \$ excl GST: 201,075.00 (capped at 200,000.00 for resolution)	

Calculation of Remuneration

Resolution 1: Administrators' retrospective remuneration for the period 19 September 2016 to 13 January 2017

KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) - Administrators' professional fees incurred for the period from 19 September 2016 to 13 January 2017																
Employee	Position	\$ / Hour (Excl GST)	Total		Assets		Creditors		Employees		Trade on		Investigation		Administration	
			Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Matthew Woods	Appointee	700.00	37.00	25,900.00	9.30	6,510.00	14.60	10,220.00	0.20	140.00	0.80	560.00	5.50	3,850.00	6.60	4,620.00
Hayden White	Partner	700.00	1.00	700.00	-	-	-	-	-	-	-	-	1.00	700.00	-	-
Stephen Vaughan	Appointee	700.00	6.30	4,410.00	0.50	350.00	2.30	1,610.00	-	-	-	-	2.50	1,750.00	1.00	700.00
Jason Hughes	Partner	700.00	1.50	1,050.00	-	-	-	-	-	-	1.50	1,050.00	-	-	-	-
Darren Lewis	Director	595.00	13.90	8,270.50	-	-	12.40	7,378.00	-	-	1.00	595.00	-	-	0.50	297.50
Ben Della-Bosca	Director	595.00	2.90	1,725.50	2.90	1,725.50	-	-	-	-	-	-	-	-	-	-
Patrick Lynch	Associate Director	525.00	295.00	154,875.00	11.00	5,775.00	104.50	54,862.50	1.00	525.00	57.00	29,925.00	30.50	16,012.50	91.00	47,775.00
Ben Brokken	Associate Director	525.00	5.50	2,887.50	-	-	-	-	-	-	5.50	2,887.50	-	-	-	-
Darsun Naran	Manager	475.00	17.50	8,312.50	-	-	2.80	1,330.00	-	-	13.90	6,602.50	-	-	0.80	380.00
Alex Godfrey	Executive	350.00	155.90	54,565.00	-	-	44.50	15,575.00	1.00	350.00	-	-	95.50	33,425.00	14.90	5,215.00
John Somerville	Executive	350.00	7.50	2,625.00	-	-	7.50	2,625.00	-	-	-	-	-	-	-	-
Chiara Ardi	Executive	350.00	0.20	70.00	-	-	-	-	-	-	-	-	-	-	0.20	70.00
Matteo Valentini	Executive	350.00	88.80	31,080.00	-	-	3.50	1,225.00	0.90	315.00	74.40	26,040.00	-	-	10.00	3,500.00
Kellie Pontifex	Executive	350.00	0.30	105.00	-	-	-	-	-	-	-	-	-	-	0.30	105.00
Tom Prendiville	Executive	350.00	17.00	5,950.00	17.00	5,950.00	-	-	-	-	-	-	-	-	-	-
Leah Diprose	Executive	350.00	422.30	147,805.00	0.30	105.00	183.50	64,225.00	11.20	3,920.00	66.50	23,275.00	44.90	15,715.00	115.90	40,565.00
Jacob Grant	Executive	350.00	10.30	3,605.00	-	-	-	-	-	-	-	-	-	-	10.30	3,605.00
Carney Yu	Analyst	275.00	10.20	2,805.00	9.50	2,612.50	-	-	-	-	-	-	0.70	192.50	-	-
Rosie Lan	Analyst	275.00	57.00	15,675.00	-	-	9.50	2,612.50	-	-	-	-	-	-	47.50	13,062.50
Emily Turlan	Analyst	275.00	1.00	275.00	-	-	1.00	275.00	-	-	-	-	-	-	-	-
Dan Yu	Analyst	275.00	4.50	1,237.50	4.50	1,237.50	-	-	-	-	-	-	-	-	-	-
Gi Gi Li	Analyst	275.00	88.30	24,282.50	-	-	43.20	11,880.00	11.50	3,162.50	-	-	-	-	33.60	9,240.00
Luke Parker	Analyst	275.00	1.90	522.50	-	-	-	-	-	-	-	-	-	-	1.90	522.50
Shannon Sinha	Analyst	275.00	6.00	1,650.00	6.00	1,650.00	-	-	-	-	-	-	-	-	-	-
John Vasilas	Analyst	275.00	23.50	6,462.50	-	-	4.00	1,100.00	-	-	1.50	412.50	4.50	1,237.50	13.50	3,712.50
Total excluding GST			1,275.30	506,846.00	61.00	25,915.50	433.30	174,918.00	25.80	8,412.50	222.10	91,347.50	185.10	72,882.50	348.00	133,370.00
GST				50,684.60												
Total including GST				557,530.60												
Average Hourly Rate				437.18		424.84		403.69		326.07		411.29		393.75		383.25
Percentage Split per Phase						5.11%		34.51%		1.66%		18.02%		14.38%		26.31%

Source: 28422906_13_Summary table_employee task

Calculation of Remuneration (cont.)

Resolution 2: Administrators' prospective remuneration for the period 14 January 2017 to 3 February 2017

KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) - Administrators' prospective remuneration for the period 14 January 2017 to 3 February 2017															
Position	\$ / Hour (Excl GST)	Total		Assets		Creditors		Employees		Trade on		Investigation		Administration	
		Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Appointee	700.00	10.00	7,000.00	3.00	2,100.00	2.00	1,400.00	0.50	350.00	0.50	350.00	3.00	2,100.00	1.00	700.00
Director	595.00	27.00	16,065.00	8.10	4,819.50	5.40	3,213.00	1.35	803.25	1.35	803.25	8.10	4,819.50	2.70	1,606.50
Executive	350.00	77.00	26,950.00	23.10	8,085.00	15.40	5,390.00	3.85	1,347.50	3.85	1,347.50	23.10	8,085.00	7.70	2,695.00
Total excluding GST		114.00	50,015.00	34.20	15,004.50	22.80	10,003.00	5.70	2,500.75	5.70	2,500.75	34.20	15,004.50	11.40	5,001.50
GST			5,001.50												
Total including GST			55,016.50												
Average Hourly Rate			438.73		438.73		438.73		438.73		438.73		438.73		438.73
Percentage Split per Phase					30.00%		20.00%		5.00%		5.00%		30.00%		10.00%

Source: 28422906_11_Summary Table 14 Jan to 3 Feb

Please note the resolution proposed will be for the lesser of \$50k plus GST and disbursements or actual time incurred plus GST and disbursements.

Calculation of Remuneration (cont.)

Resolution 3: Deed Administrators' prospective remuneration for the period 4 February 2017 onwards

KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) - Deed Administrators' prospective remuneration for the period 4 February 2017 onwards													
Position	\$ / Hour (Excl GST)	Total		Assets		Creditors		Employees		Dividend		Administration	
		Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$	Hrs	\$
Appointee	700.00	25.00	17,500.00	10.00	7,000.00	7.50	5,250.00	2.50	1,750.00	2.50	1,750.00	2.50	1,750.00
Director	595.00	85.00	50,575.00	34.00	20,230.00	25.50	15,172.50	8.50	5,057.50	8.50	5,057.50	8.50	5,057.50
Executive	350.00	380.00	133,000.00	152.00	53,200.00	114.00	39,900.00	38.00	13,300.00	38.00	13,300.00	38.00	13,300.00
Total excluding GST		490.00	201,075.00	196.00	80,430.00	147.00	60,322.50	49.00	20,107.50	49.00	20,107.50	49.00	20,107.50
GST			20,107.50										
Total including GST			221,182.50										
Average Hourly Rate			410.36		410.36		410.36		410.36		410.36		410.36
Percentage Split per Phase					40.00%		30.00%		10.00%		10.00%		10.00%

Source: 28422906_12_Summary Table DOCA

Please note the resolution proposed will be for the lesser of \$200k plus GST and disbursements or actual time incurred plus GST and disbursements.

Disbursements

Disbursements for the period 8 September 2016 to 13 January 2017

Summary of Administrators' disbursements	
\$'000	
Travel and Airfares	11.8
Creditor meetings costs	3.9
Taxi costs	2.4
Creditor mailing costs	2.3
Other costs	1.0
Total	21.4

Statement of remuneration claim and proposed resolutions

This section details the resolutions that creditors will be asked to consider at the forthcoming meeting of creditors.

Resolution 1

Administrators' actual remuneration for the period 19 September 2016 to 13 January 2017	
Company: <i>KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed)</i>	Period: 19 September 2016 to 13 January 2017
Practitioner: Stephen Vaughan and Matthew Woods	Firm: KPMG
Administration type: Proposed resolution:	Voluntary Administration "That the Administrators' remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) for the period 19 September 2016 to 13 January 2017 be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$506,846.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company."

Resolution 2

Administrators' prospective remuneration for the period 14 January 2017 to 3 February 2017	
Company: <i>KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed)</i>	Period: 14 January 2017 to 3 February 2017
Practitioner: Stephen Vaughan and Matthew Woods	Firm: KPMG
Administration type: Proposed resolution:	Voluntary Administration "That the Administrators' remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed) for the period 14 January 2017 to 3 February 2017 as forecast be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$50,000.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company."

Resolution 3

Should creditors resolve to enter into the proposed Deed of Company Arrangement, prospective remuneration for the period 4 February 2017 onwards to act as Deed Administrators			
Company:	<i>KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed)</i>	Period:	4 February 2017 onwards
Practitioner:	Stephen Vaughan and Matthew Woods	Firm:	KPMG
Administration type:	Deed Administrator		
Proposed resolution:	"That the Deed Administrators' prospective remuneration in respect of KBL Mining Limited (Administrators Appointed) (Receivers and Managers Appointed)(Deed Administrators Appointed) for the period 4 February 2017 onwards be approved in a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates, for an amount of up to \$200,000.00 plus GST and disbursements, and that such fees are authorised for payment from the assets of the Company or creditors trust established under the DOCA."		

Queries

Should members of the Committee of Creditors have any queries in respect to the matters discussed in this report, please contact Leah Diprose on +61 2 9295 3877 or ldiprose@kpmg.com.au.

Information Sheet

Creditor information sheet: 'Approving remuneration in an external administration' is attached. This information sheet provides further general information in respect to assessing and approving remuneration in external administrations.

0. ASIC insolvency information for
directors, employees, creditors and
shareholders



ASIC

Australian Securities & Investments Commission

Insolvency information for directors, employees, creditors and shareholders

ASIC has 11 insolvency information sheets to assist you if you're affected by a company's insolvency and have little or no knowledge of what's involved.

These plain language information sheets give directors, employees, creditors and shareholders a basic understanding of the three most common company insolvency procedures—liquidation, voluntary administration and receivership. There is an information sheet on the independence of external administrators and one that explains the process for approving the fees of external administrators. A glossary of commonly used insolvency terms is also provided.

The Insolvency Practitioners Association (IPA), the leading professional organisation in Australia for insolvency practitioners, endorses these publications and encourages its members to make their availability known to affected people.

List of information sheets

- INFO 41 *Insolvency: a glossary of terms*
- INFO 74 *Voluntary administration: a guide for creditors*
- INFO 75 *Voluntary administration: a guide for employees*
- INFO 45 *Liquidation: a guide for creditors*
- INFO 46 *Liquidation: a guide for employees*
- INFO 54 *Receivership: a guide for creditors*
- INFO 55 *Receivership: a guide for employees*
- INFO 43 *Insolvency: a guide for shareholders*
- INFO 42 *Insolvency: a guide for directors*
- INFO 84 *Independence of external administrators: a guide for creditors*
- INFO 85 *Approving fees: a guide for creditors*

Getting copies of the information sheets

To get copies of the information sheets, visit ASIC's website at www.asic.gov.au/insolvencyinfosheets. The information sheets are also available from the IPA website at www.ipaa.com.au. The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

Important note: The information sheets contain a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. These documents may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances. You will need a qualified professional adviser to take into account your particular circumstances and to tell you how the law applies to you.



19. Contact us

Matthew Woods

Joint & Several Administrator of KBL Mining Limited

Partner – Restructuring Services

Stephen Vaughan

Joint & Several Administrator of KBL Mining Limited

Director – Restructuring Services

Please direct queries regarding KBL Mining Limited to au-fm-kbl-mining@kpmg.com.au and continue to monitor the KBL Mining Limited ASX Announcements for further updates regarding the Administration

www.kpmg.com.au

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