

ASX MARKET ANNOUNCEMENT

Monday, 14 May 2018

ASX Codes : KBC; KBCPA

NET ASSET BACKING – APRIL 2018

Keybridge Capital Limited (ASX:KBC) gives notice that its unaudited after-tax Net Asset Backing as at 30 April 2018 was \$0.1431 per share.

Net Asset Backing

Net Asset Backing for Period Ending:	% Change	Current Month 30 April 2018	Previous Month 31 March 2018
Pre-Tax Net Asset Backing per share	+3.45%	\$0.1431	\$0.1383
Post-Tax Net Asset Backing per share	+3.45%	\$0.1431	\$0.1383
Based on total issued (listed) share capital ⁽¹⁾		158,080,432	158,080,432

Net Assets

	Current Month 30 April 2018		Previous Month 31 March 2018	
	\$'million	% of Net Assets	\$'million	% of Net Assets¹
Cash	8.149	36.00%	0.703	3.20%
Investment in Associated entity ⁽²⁾	2.290	10.10%	2.502	11.40%
Other Listed Securities	9.721	43.00%	9.702	44.40%
Managed Funds	0.308	1.40%	0.167	0.80%
Other Investments	0.102	0.40%	0.102	0.50%
Loan Receivables:				
· Private Equity ⁽³⁾	0.520	2.30%	0.514	2.30%
· Infrastructure ⁽⁴⁾	-	-	6.353	29.10%
· Insurance ⁽⁵⁾	3.357	14.80%	3.347	15.30%
· Property ⁽⁶⁾	0.885	3.90%	0.885	4.00%
· Other ⁽⁷⁾	0.814	3.60%	0.769	3.50%
Other Assets ⁽⁸⁾	1.372	6.10%	1.066	4.90%
Convertible Redeemable Promissory Notes (ASX: KBCPA) ⁽⁹⁾	(4.181)	(18.50%)	(4.049)	(18.50%)
Provision for tax	-	-	-	-
Other Liabilities	(0.712)	(3.10%)	(0.191)	(0.90%)
Net Assets	22.625	100%	21.870	100%

On [30 April 2018](#), Keybridge announced the sale of the Totana Solar Plant assets, the repayment/discharge of various loans owed to Keybridge by the corporate entities which held Totana and the consolidation of the corporate ownership structure vis a vis Totana – refer Note (4) below.

Currency Exposure

% of Net Assets	Current Month 30 April 2018	Previous Month 31 March 2018
Australian Dollars	54%	53%
Euros	29%	29%
US Dollars	2%	2%
New Zealand Dollars	15%	16%

Major Investment Holdings

Security	ASX Code	Industry Sector	Current Month 30 April 2018		Previous Month 31 March 2018	
			Value \$'million	% of Net Assets	Value \$'million	% of Net Assets ¹
Molopo Energy Limited	MPO	Energy	6.442 ⁽⁸⁾	28.4%	6.442 ⁽⁸⁾	29.5%
HHY Fund	HHY	Financials	2.290	10.1%	2.502	11.4%
Metgasco Limited	MEL	Energy	1.968	8.7%	2.113	9.7%
Yowie Group Ltd	YOW	Food, Beverage	0.718	3.2%	0.742	3.4%
Copper Strike Limited	CSE	Materials	0.354	1.6%	0.405	1.8%
Other listed securities	-	-	0.239	1.1%	-	-
Other managed funds	-	-	0.308	1.4%	0.167	0.8%
Other unlisted securities	-	-	0.102	0.4%	0.102	0.5%
Total			12.421	54.9%	12.473	57.1%

Keybridge has adopted a carrying value of \$0.14 per share in respect of its MPO shareholding, which was the last traded price on ASX prior to MPO's suspension on 25 July 2017.

Keybridge notes the following matters in relation to MPO in this regard:

- (a) Aurora Funds Management Limited (**AFML**), as Responsible Entity of the unlisted Aurora Fortitude Absolute Return Fund (**AFARF**), has launched a cash and/or scrip takeover bid for MPO at \$0.135 per share, which is currently scheduled to close on 20 June 2018.
- (b) On 8 May 2018, MPO released its 2017 Annual Report (in respect of the calendar year ended 31 December 2017) and March 2018 Quarterly Report and an ASX Announcement ("Molopo De-Risks by Diversifying its Oil and Gas Exploration Portfolio") which discloses for the first time a series of transactions the Molopo Board entered into between 1 January and 7 March 2018 whereby, inter alia:
 - (i) US\$23.5 million was loaned Orient FRC Ltd (**Orient**) – this is in addition to the US\$4.5 Million previously loaned to Orient (as announced by MPO on 11 December 2017 (Update on Orient FRC Ltd Investment));
 - (ii) Orient has utilised these funds to buy-back Gil Feiler's 50% interest in Orient for US\$7 million – Gil Feiler also received US\$7 million when he sold a 50% interest in Orient to MPO (as announced by MPO on 22 August 2017 (Molopo Acquires Interest in US Oil and Gas Project));
 - (iii) Orient (now a wholly owned subsidiary of MPO), has transferred the 'Orient Project' into a subsidiary, Orient FRC (US) LLC (**Orient US**); Orient also provided a US\$21 million intercompany loan to Orient US;
 - (iv) Orient's shareholding in Orient US has been exchanged for a 30% non-voting interest (Class A shares) in Drawbridge Energy Holdings Ltd (**Drawbridge**); Drawbridge has interests in a number of on-shore and off-shore oil and gas projects in the US; and
 - (v) Orient's US\$21 million to Orient US has been extinguished as part of the 'Drawbridge Transaction';
- (c) As at 31 March 2018, MPO has gross cash of A\$16.904 million; MPO's 2017 Annual Report also discloses a C\$8.4 million (A\$8.6 million) provision in respect of Canadian litigation matters; MPO's March Quarterly Report estimates cash outflows for the April-June 2018 quarter to be A\$1.65 million;

- (d) As at 31 March 2018, Drawbridge (which includes the cash funds and Orient Project held by Orient US) has gross cash of US\$14.07 million, investment and other assets of US\$4.41 million, current liabilities of US\$0.29 million and net assets of US\$18.2 million; Drawbridge's budgeted expenditure to 30 September 2018 is estimated to be US\$6.61 million;
- (e) On 11 May 2018, MPO released an ASX Announcement containing a letter from the ASX to MPO whereby ASX states, inter alia:
- (i) Molopo has committed serious breaches of the ASX Listing Rules;
 - (ii) Molopo may have breached the Corporations Act for making misleading disclosures to ASX;
 - (iii) ASX has referred its findings to ASIC for potential action against Molopo; and
 - (iv) ASX requires the Orient and Drawbridge Transactions be put to Molopo shareholders for approval.

MPO's AGM has also been convened for 31 May 2018 at which all the current MPO Directors are standing for re-election and shareholders have proposed 4 new nominees for election – Keybridge has nominated Director, William Johnson, for election at the MPO AGM.

Keybridge refers to the above mentioned MPO ASX announcements for further information.

Keybridge is reviewing the above matters and may re-assess the carrying value of its investment in MPO after the conclusion of such review.

Loan Receivable Holdings

Loan Exposure to Industry Sector	Current Month 30 April 2018 \$'million			Previous Month 31 March 2018 \$'million		
	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity ⁽³⁾	6.515	(5.995)	0.520	6.509	(5.995)	0.514
Infrastructure ⁽⁴⁾	-	-	-	12.435	(6.082)	6.353
Insurance ⁽⁵⁾	3.357	-	3.357	3.347	-	3.347
Property ⁽⁶⁾	4.189	(3.304)	0.885	4.189	(3.304)	0.885
Other ⁽⁷⁾	1.034	(0.220)	0.814	1.046	(0.277)	0.769
Total	15.095	(9.519)	5.576	27.526	(15.658)	11.868

FOR FURTHER INFORMATION:

John Patton
Chairman
Tel: +61 3 9686 7000
Email: jpatton@keybridge.com.au

Victor Ho
Company Secretary
Tel: +61 8 9214 9767
Email: cosec@keybridge.com.au

ABOUT [KEYBRIDGE CAPITAL LIMITED](#) (ASX: [KBC](#))

KBC is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in HHY Fund (ASX:[HHY](#)), Molopo Energy Limited (ASX:[MPO](#)), Metgasco Limited (ASX:[MEL](#)) and Yowie Group Ltd (ASX:[YOW](#)). KBC is also the Investment Manager of HHY.

NOTES:

- (1) Net Asset Backing per share is based on Keybridge's total listed shares on issue and excludes unlisted shares issued under the Company's Executive Share Plan (for further details, refer KBC's [Notice of AGM](#) released on ASX on 30 October 2014 and KBC's ASX announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)).

On [5 December 2017](#), Keybridge announced its intention to undertake an on-market buy-back of up to 14,227,238 shares (being ~ 9% of 158,080,432 total shares on issue) on or before 30 November 2018. During the month, Keybridge bought back nil shares (31 March 2018: nil).

- (2) **Investment in Associated entity:** Keybridge's investment in HHY Fund (ASX:HHY), an Associated Entity (i.e. an entity in which the Company has a [greater than 20% interest](#) and is considered to have 'significant influence' over), is accounted for under the equity method in the consolidated financial statements. Under the equity method, the carrying amount of such investment is cost plus a share of the Associate Entity's net profit or loss (after tax) as provided to the Company by such Associated Entity (refer Note 20 (Investment in Associate entity) on page 65 of the Company's [2017 Annual Report](#)). The Board has determined that where HHY's net tangible asset (NTA) backing is lower than the value calculated under the equity method as at month end, the lower NTA backing value will be adopted as the carrying value instead (based on the Directors' judgement).

As at month end, Keybridge's 25,146,973 units (30.89% interest) (31 March 2018: 25,146,973 units; 30.89%) in HHY have a carrying value of \$0.0911 per unit (\$2.29m) based on the equity method (31 March 2018: \$0.0995 per unit (\$2.502m) based on the equity method); this compares with HHY's last bid price on ASX of \$0.064 per unit (\$1.609m) (31 March 2018: \$0.08 per unit (\$2.012m)) and HHY's NTA backing of \$0.0917 per unit (\$2.306m) (28 February 2018: \$0.1068 per unit (\$2.686m)), as at month end.

- (3) **Loan Receivables - Private Equity:** Keybridge holds a US\$4.3m a limited recourse promissory note (**Note**) issued by RPE I Investor LLC (**RPE Investor**) (a subsidiary of Republic Financial Corporation (**RPC**), a US private investment company) secured (via collateral pledged) over RPE Investor's ~50% (Limited Partners') (contributed capital) interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in US based manufacturing/distribution businesses (**RPE Fund**). The principal and accrued interest (at 14.5% pa) under the note has not been repaid on maturity on 29 December 2017 (the parties are in discussions in relation to a mutually acceptable resolution of this matter). The Note arose out of a restructure in April 2013 where, as part of arrangements to exit legacy aviation investments (made whilst Keybridge was known as Mariner

Bridge Investments Limited in 2006/2007) for US\$29.7 million cash, Keybridge sold its interest in the RPE Fund for US\$4.3 million fully funded by a Keybridge loan with recourse only to that asset sold (i.e. the Note).¹

On 24 August 2017, Keybridge received the RPE Fund's 30 June 2017 Quarterly Report (unaudited) (**June 2017 RPE Accounts**) which disclosed a significant reduction in the RPE Fund's gross asset position as well as notice from an RPC Executive (**Republic**) advising that it was 'highly unlikely that the Note will be satisfied on or before its scheduled maturity' (on 29 December 2017) and proposing a 3-year extension of the Note term or a 'buy-out' (retirement) of the Note for US\$0.394 million.

In light of these matters, the Board reduced the carrying value of the Note (receivable) to US\$0.394 million (A\$0.511 million) as at 30 June 2017, which also resulted in Keybridge recognising a US\$4.611 million (A\$5.996 million) provision for impairment expense for the financial year ending 30 June 2017. Refer also KBC's ASX announcement dated [25 August 2017: Update – Private Equity Loan Receivable](#), which contains further details concerning the June 2017 RPE Accounts and Republic's correspondence.

Since August 2017, Keybridge has also received alternative proposals from Republic to settle the Note liability. As at the date of this announcement, Keybridge has not accepted Republic's proposals and the parties are in on-going discussions in relation to a mutually acceptable resolution of this matter. Additionally, Keybridge is also reviewing its rights under the Note to call upon the collateral pledged as security (ie. RPE Investor's interest in the RPE Fund).

As at month end, the loan was carried (based on the Directors' judgement) at a valuation (net of impairments) of US\$0.394m (A\$0.52m) (31 March 2018: US\$0.394m (A\$0. 514m)).

- (4) **Loan Receivables – Infrastructure:** In 2007/2008, Keybridge financed the development and construction of the Totana 1.05MWp Solar Photovoltaic Park in the Murcia region in southern Spain.

On 27 April 2018, the Totana Solar Plant assets in Spain was sold to Eliantus Energy for total consideration of A\$8.32 million (€5.2 million), with A\$8 million (€5 million) paid upfront and A\$0.32 million (€0.2 million) payable in 18 months.² The initial A\$8 million proceeds of sale has been repatriated to Keybridge (in Australia) as part of the repayment/discharge of various loans owed to Keybridge (with a carrying value of A\$6.312 million as at 26 April 2018) by the corporate entities (originally set up by Keybridge for this purpose) which held the Totana Solar Plant assets. Refer also KBC's ASX announcement dated [30 April 2018: Sale of Totana Solar Plant Assets](#).

During the financial year to 27 April 2018, Keybridge also received cash loan repayments totalling €0.675m (A\$1.034m).

¹ Refer KBC's ASX Announcements dated 1 May 2013: [Sale of Aircraft and Full Repayment of Corporate Debt Facility](#) and 10 April 2013: [Quarterly Update – January to March 2013](#)

² Based on an exchange rate of A\$1.00 : €0.625

- (5) **Loan Receivables – Insurance:** In [September 2014](#), Keybridge invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m (10.13%) equity and NZ\$3.691m notes) into Foundation Life, to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand in 2014. Interest of 9% pa is payable under the note, which is redeemable by noteholders in 50 years (May 2064) (recently amended from 10 years) or by Foundation (from time to time).

As at month end, the loan balance is NZ\$3.589m (A\$3.357m) (31 March 2018: NZ\$3.563m and A\$3.347m) and Keybridge retains its 10.13% equity interest in Foundation Life valued at cost of NZ\$0.109m (A\$0.102m) (31 March 2018: NZ\$0.109m and A\$0.102m).

- (6) **Loan Receivables – Property:** In September 2014, Keybridge took direct control of loans that were held in a fund (where Keybridge was the remaining sole lender) which invested in first ranking mortgage loans over commercial properties. Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in Manly, Sydney as security for loans, which are owed by private companies (which are in liquidation).

As at month end, the loan was carried (based on the Directors' judgement) at a valuation of A\$0.885m (31 March 2018: A\$0.885m) – this was based on an independent valuation received in respect of the lots in May 2016 and an updated appraisal undertaken by the same valuer in April 2018.

- (7) **Loan Receivables – Other:** Includes \$0.381m (31 March 2018: \$0.336m) accrued interest receivable in respect of Executive Share Plan (**ESP**) loans attributable to former Directors³ - refer also Note 10(e) (Loans and Receivables) on page 53 and Note 15 (Share-based payments) on pages 61 and 62 of the Company's [2017 Annual Report](#).

- (8) **Molopo Energy Limited (ASX:MPO):** MPO shares have been suspended from trading on ASX since 25 July 2017 with a closing price of \$0.14 as at 21 July 2017, the date of the last trade on the ASX prior to MPO's suspension. Keybridge has adopted a carrying value of \$0.14 per share in respect of its MPO shareholding.

On 7 July 2017, 3,666,285 shares in MPO (out of Keybridge's total holding of 49,683,828 shares) were vested in the Commonwealth (on trust for Keybridge) under the declaration and orders of the Takeovers Panel in the matter of Molopo Energy Limited 03R, 04R & 05R.⁴ These shares will be sold by ASIC (via an appointed investment bank or stock broker within 6 months from their engagement) with the proceeds of sale accounted to Keybridge (net of the costs, fees and expenses of the sale and any costs, fees and expenses

incurred by ASIC and the Commonwealth (if any)). Keybridge remains the second largest shareholder in MPO with 46,017,543 shares (18.478%)⁵ acquired at an average cost of \$0.15 per share.

As these vested 3.67 million MPO shares are held on trust for Keybridge pending sale by ASIC, Keybridge continues to recognise the shares as company assets at the same carrying value per share as its holding of 46 million MPO shares, less an estimate (provisionally 2.5%) in respect of selling costs.

On 11 September 2017, Aurora Funds Management Limited (**AFML**) (as Responsible Entity of the Aurora Absolute Return Fund (ASX:[ABW](#)), Aurora Global Income Trust (ASX:[AIB](#)) and unlisted Aurora Fortitude Absolute Return Fund (**AFARF**)) announced that it had applied to the Federal Court for judicial review of the Takeovers Panel decision in the matter⁶.

AFARF has also launched a cash and/or scrip takeover bid for MPO at \$0.135 per share, which is currently scheduled to close on 20 June 2018. Refer AFARF's ASX announcements dated 26 October 2017: Bidder's Statement and 13 April 2018: Notice of Variation of MPO Bid and MPO's ASX announcements dated 28 November 2017: Target's Statement, 19 January 2018: Supplementary Target's Statement and 19 March 2018: Second Supplementary Target's Statement.

- (9) **Convertible Redeemable Promissory Notes:** (ASX: KBCPA): Keybridge issued 4,956,936 listed Convertible Redeemable Promissory Notes on [30 June 2015](#). The notes have a face value of \$1.00, pays interest at 7% pa and matures on 31 July 2020 (unless redeemed or bought-back by Keybridge earlier). Interest distributions are generally payable quarterly and have a franking credit component under Australian taxation law. Further details are contained in the [Prospectus dated 17 June 2015](#). As at month end, 4,401,047 notes are on issue (31 March 2018: 4,401,047 notes).

- (10) **Consolidation of BIC Europe Limited:** Contemporaneously with the completion of the sale of Totana and the repayment/discharge of related loans (referred to in Note (4) above), Keybridge has also consolidated the corporate ownership structure vis a vis Totana. The Totana assets were owned by BIC Europe Limited (**BIC Europe**). BIC Europe was jointly owned by Keybridge and Global Capital Finance LLC (**GCF**). Upon the completion of the Totana sale, GCF has agreed to exit its position and BIC Europe became a wholly owned subsidiary of Keybridge with effect on 27 April 2018.

3 Refer KBC's [Notice of AGM](#) released on ASX on 30 October 2014 and KBC's ASX announcement dated 1 December 2014: [Results of AGM: KBC's ASX Announcement dated 19 December 2014: Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#) and KBC's ASX Announcement dated 28 April 2015: [Appendix 3B](#)

4 Refer Takeovers Panel Reasons for Decision dated [22 August 2017: Molopo Energy Limited 03R, 04R & 05R \[2017\] ATP 12](#); Takeovers Panel Media Release No. TP17/37 dated [10 July 2017](#):

[Molopo Energy Limited 03R, 04R & 05R - Orders](#); Takeovers Panel Media Release No. TP17/34 dated [30 June 2017: Molopo Energy Limited 03R, 04R & 05R – Declaration of Unacceptable Circumstances](#)

5 Refer KBC's ASX Announcement [11 July 2017: Change of Substantial Holder Notice for MPO](#)

6 Refer AIB's and ABW's ASX Announcement dated 11 September 2017: [AFARF, ABW and AIB – Takeovers Panel 03R, 04R & 05R](#)