

Tuesday, 14 August 2018

ASX Codes : KBC; KBCPA

ASX MARKET ANNOUNCEMENT

NET ASSET BACKING – JULY 2018

Keybridge Capital Limited (ASX:KBC) gives notice that its unaudited after-tax Net Asset Backing as at 31 July 2018 was \$0.1104 per share.

Net Asset Backing

	% Change	Current Month 31 July 2018	Previous Month 30 June 2018
Net Asset Backing for Period Ending:			
Pre-Tax Net Asset Backing per share	+2.23 %	\$0.1104	\$0.1083
Post-Tax Net Asset Backing per share	+2.23%	\$0.1104	\$0.1083
Based on total issued (listed) share capital ⁽¹⁾		158,080,432	158,080,432

Net Assets

	Current Month 31 July 2018		Previous Month 30 June 2018	
	\$'million	% of Net Assets	\$'million	% of Net Assets ¹
Cash	4.726	27.10%	5.008	29.30%
Investment in Associated entity ^(Note 2)	2.300	13.20%	2.094	12.20%
Other Listed Securities	8.200	47.00%	7.449	43.50%
Managed Funds	0.290	1.70%	0.300	1.80%
Other Investments	0.100	0.60%	0.100	0.60%
Loan Receivables:				
· Private Equity ^(Note 3)	0.530	3.00%	0.533	3.10%
· Insurance ^(Note 4)	3.164	18.10%	3.135	18.30%
· Property ^(Note 5)	0.985	5.60%	0.985	5.80%
· Other ^(Note 6)	1.330	7.60%	1.321	7.70%
Other Assets	0.266	1.50%	0.566	3.30%
Convertible Redeemable Promissory Notes (ASX: KBCPA) ^(Note 8)	(4.102)	(23.50%)	(4.053)	(23.70%)
Provision for tax	-	-	-	-
Financial liabilities	(0.022)	(0.10%)	-	-
Other Liabilities	(0.311)	(1.80%)	(0.321)	(1.90%)
Net Assets	17.456	100%	17.117	100%

Currency Exposure

% of Net Assets	Current Month 31 July 2018	Previous Month 30 June 2018
Australian Dollars	37%	35%
Euros	40%	41%
US Dollars	3%	4%
New Zealand Dollars	20%	20%

Major Investment Holdings

Security	Code	Industry Sector	Current Month 31 July 2018		Previous Month 30 June 2018	
			Value \$'million	% of Net Assets	Value \$'million	% of Net Assets ¹
Metgasco Limited	MEL	Energy	2.259	12.9%	2.150	12.6%
HHY Fund	HHY	Financials	2.300	13.2%	2.094	12.2%
Molopo Energy Limited ^(Note 7)	MPO	Energy	2.144	12.3%	1.767	10.3%
Pershing Square Holdings Ltd	PSH	Financials	1.512	8.7%	1.478	8.6%
Monash Absolute Investment Company Limited	MA1	Financials	1.317	7.5%	1.199	7.0%
Yowie Group Ltd	YOW	Food, Beverage	0.647	3.7%	0.521	3.0%
Copper Strike Limited	CSE	Materials	0.320	1.8%	0.312	1.8%
Other managed funds	-	-	0.290	1.7%	0.300	1.8%
Other listed securities	-	-	-	-	0.022	0.1%
Other unlisted securities	-	-	0.100	0.6%	0.100	0.6%
Total			10.890	62.4%	9.943	58.0%

Keybridge notes that the carrying value of the Company's investment in Molopo Energy Limited (ASX:MPO) (**MPO**) has been assessed at 4.66 cents per share, based on the Keybridge Board's judgement of MPO's estimated net asset backing having regard to the following matters:

- (a) MPO's gross cash position of A\$15.021 million as at 30 June 2018¹;
- (b) MPO's C\$8.4 million (A\$8.689 million²) provision in respect of Canadian litigation matters³;
- (c) MPO's 30% shareholding in Drawbridge Energy Holdings Ltd (**Drawbridge**), which was reported to have gross cash of US\$14.07 million, investment and other assets of US\$4.42 million, current liabilities of US\$0.29 million and net assets of US\$18.2 million (A\$24.89 million⁴), as at 31 March 2018⁵; and
- (d) Drawbridge's cash outflows for the 6 month period between April and September 2018 estimated to be US\$6.61 million (gross) or US\$1.1 million (A\$1.48 million⁴) per month⁵.

Keybridge will re-assess the carrying value of its investment in MPO based on further information about MPO's financial position, as released on ASX by MPO.

More detail concerning MPO and the circumstances revealed in May 2018⁵ concerning the conduct of the former Directors of MPO is set out in Note (7) to this Announcement.

The Keybridge Board notes that these circumstances are being reviewed by the new MPO Board (elected on 31 May 2018)⁶. Keybridge supports the efforts of the new MPO Board to attempt to restore value to MPO which was lost by the Orient and Drawbridge transactions and circumstances described in Note (7).

1 Refer MPO Quarterly Reports for the quarter ending 30 June 2018 dated 31 July 2017 and released on ASX on 1 May 2018

2 Based on an exchange rate of A\$1.00 : C\$0.9667 (per IRESS) as at 31 July 2018

3 Refer MPO Annual Report for the year ended 31 December 2017 released on ASX on 8 May 2018

4 Based on an exchange rate of A\$1.00 : US\$0.7429 (per IRESS) as at 31 July 2018

5 Refer MPO ASX announcement dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio

6 Refer MPO ASX announcements dated 1 June 2018: Board Changes and 4 June 2018: Appointment of Chair

Loan Receivable Holdings

Loan Exposure to Industry Sector	Gross Value	Current Month 31 July 2018 \$'million		Previous Month 30 June 2018 \$'million		
		Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity ^(Note 3)	6.525	(5.995)	0.530	6.528	(5.995)	0.533
Insurance ^(Note 4)	3.164	-	3.164	3.135	-	3.135
Property ^(Note 5)	4.289	(3.304)	0.985	4.289	(3.304)	0.985
Other ^(Note 6)	1.895	(0.565)	1.330	1.550	(0.229)	1.321
Total	15.873	(9.864)	6.009	15.502	(9.528)	5.974

FOR FURTHER INFORMATION:

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 (30 June 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) (30 June 2018: 25,146,973 units; 30.89%) in HHY have a carrying value of \$0.0915 per unit (\$2.3m) based on the equity method (30 June 2018: \$0.083 per unit (\$2.094m) based on the equity method); this compares with HHY's last bid price on ASX of \$0.065 per unit (\$1.635m) (30 June 2018: \$0.069 per unit (\$1.735m)) and HHY's NTA backing of \$0.921 per unit (\$2.317m) (30 June 2018: \$0.084 per unit (\$2.111m)), 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).⁷

On 24 August 2017, Keybridge received 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). Refer also KBC's ASX announcement dated [25 August 2017: Update – Private Equity Loan Receivable](#).

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).

The Board has maintained the carrying value of the Note (receivable) at US\$0.394 million (A\$0.532 million) as at month end as it believes that the Note is recoverable on the basis that discussions with Republic are on-going and the Board believes that a value of at least the current carrying value will be recouped (30 June 2018: US\$0.394m (A\$0.53m)).

- (4) **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) or by Foundation (from time to time).

As at month end, the loan balance is NZ\$3.444m (A\$3.164m) (30 June 2018: NZ\$3.418m and A\$3.135m) and Keybridge retains its 10.13% equity interest in Foundation Life valued at cost of NZ\$0.109m (A\$0.1m) (30 June 2018: NZ\$0.109m and A\$0.1m).

- (5) **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).

⁷ Refer KBC'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](#)

As at month end, the loan was carried (based on the Directors' judgement) at a valuation of A\$0.985m (30 June 2018: A\$0.985m) – 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.

- (6) **Loan Receivables – Other:** Includes \$0.363m (30 June 2018: \$0.363m) outstanding consideration receivable from the sale of Aurora Fund Management Limited (**AFML**) in 27 June 2016, \$0.44m (30 June 2018: \$0.44m) loan advance to a former Director (in relation to legal costs incurred, pursuant to his Director's Deed), \$0.167m (30 June 2018: \$0.134m) relating to the value of 3.67m MPO shares vested in the Commonwealth (on trust for Keybridge) pending sale and A\$0.315m (€0.2m) deferred consideration receivable in August 2019 (18 months after the sale of the Totana Solar Plant asset - refer KBC's ASX announcement dated [30 April 2018: Sale of Totana Solar Plant Assets](#)).
- (7) **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.

At month end, Keybridge has adopted (based on the Directors' judgement) a carrying value of \$0.0466 (30 June 2018: \$0.0375) 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.⁸ These shares will be sold by ASIC with the proceeds of sale accounted to Keybridge (net of the costs, fees and expenses of the sale). Keybridge remains the second largest shareholder in MPO with 46,017,543 shares (18.478%)⁹ 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.

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 matter¹⁰.

AFARF has also launched a cash and/or scrip takeover bid for MPO at \$0.135 per share, which AFML has announced will expire on 20 August 2018 without being freed from 'defeating conditions'. Refer AFARF's ASX announcements dated 26 October 2017: Bidder's Statement, 12

June 2018: Notice of Variation of MPO Bid, 10 August 2018: Molopo Energy – Withdrawal of Takeover Bid and 13 August 2018: Section 630(3) Notice of Status of Defeating Conditions, and MPO's ASX announcements dated 28 November 2017: Target's Statement, 19 January 2018: Supplementary Target's Statement, 19 March 2018: Second Supplementary Target's Statement and 28 May 2018: Third Supplementary Target's Statement.

Keybridge also notes the following matters in relation to MPO:

- (a) 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 previous Molopo Board entered into between 1 January and 7 March 2018 whereby, inter alia:
- (i) US\$23.5 million was loaned to British Virgin Islands (**BVI**) registered 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 (held via Gil Feiler's Belize-registered ESGM Investments Limited) 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, Texas-registered 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';
- (b) On 11 May 2018, MPO released an ASX Announcement containing a letter from the ASX to MPO whereby ASX states, inter alia (**ASX Breaches Letter**):

⁸ 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](#)

⁹ Refer KBC ASX Announcement [11 July 2017: Change of Substantial Holder Notice for MPO](#)

¹⁰ Refer AIB and ABW ASX Announcements dated 11 September 2017: AFARF, ABW and AIB – Takeovers Panel 03R, 04R & 05R

- (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.
- (c) A detailed background to the Orient and Drawbridge Transactions and the ASX Breaches Letter is summarised in Keybridge's Media Release dated 23 May 2018.¹¹
- (d) At MPO's AGM¹² held on 31 May 2018¹³, Messrs Baljit Johal, Matthew Cudmore and Richard Matthews were not re-elected as Directors (**Former Directors**) and Messrs Ralph Curton, William Johnson (being also a Director of Keybridge), Anthony Hartnell AM and Roger Corbett AO were elected as Directors.¹⁴
- (e) On 8 June 2018, the Takeovers Panel announced that it had made a declaration of unacceptable circumstances in relation to the affairs of MPO arising out of, inter alia, the Orient and Drawbridge Transactions including that¹⁵:
- (i) MPO shareholders have not been given enough information to enable them to assess the merits of AFARF's takeover bid and have not had a reasonable and equal opportunity to participate in any benefits accruing under the bid; and
 - (ii) The Former Directors by their action, including such action which may contribute to AFARF's bid not proceeding, have not given MPO shareholders a reasonable and equal opportunity to participate in any benefits accruing under the bid.
- (f) On 18 July 2018, the Takeovers Panel announced its final orders requiring Molopo to pay AFML compensation in relation to certain of AFML's bid costs and AFML's costs in relation to the Panel proceedings (totalling \$70,581.66).¹⁶
- (g) On 30 July 2018, the Takeovers Panel published its Final Reasons in the matter of Molopo Energy Limited 10 & 11.¹⁷
- (h) Refer also to Keybridge's ASX Announcement dated 2 August 2018: Update on Molopo Matters, for a summary of the Takeovers Panel's findings in the published reasons for Molopo Energy Limited 10 & 11 and an update on the Victoria Supreme Court litigation initiated by Keybridge against Molopo and the Former Directors.
- (8) **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 (30 June 2018: 4,401,047 notes).

11 Refer KBC Media Release dated 23 May 2018: Further Letter to Molopo Shareholders for AGM – Orient and Drawbridge Transactions and Breaches of ASX Listing Rules; available on KBC website: www.keybridge.com.au

12 Refer MPO Notice of AGM and Explanatory Statement dated and released on ASX on 30 April 2018

13 Refer MPO ASX announcement dated 31 May 2018: AGM Results

14 Refer also MPO ASX announcements dated 1 June 2018: Board Changes and 4 June 2018: Appointment of Chair

15 Refer Takeovers Panel Media Release No. TP18/042 dated [8 June 2018: Molopo Energy Limited 10 & 11 – Declaration of Unacceptable Circumstances](#)

16 Refer Takeovers Panel Media Release No. TP18/53 dated [18 July 2018: Molopo Energy Limited 10 & 11 – Orders](#)

17 Refer Takeovers Panel Reasons for Decision in [Molopo Energy Limited 10 & 11 \[2018\] ATP 12](#)