

Thursday, 13 June 2019

ASX Codes: KBC; KBCPA

ASX MARKET ANNOUNCEMENT

NET ASSET BACKING – MAY 2019

Keybridge Capital Limited (ASX: KBC) gives notice that its unaudited after-tax Net Asset Backing as at 31 May 2019 was \$0.078 per share.

Asset Update

Keybridge notes that it received a non-binding offer for an asset indirectly held by the Company through a secured loan, that, if accepted, would result in a realisation gain relative to book value of approximately \$2 million (or approximately 1.27 cents per share) - this potential gain is not reflected in the reported Net Asset Backing.

Net Asset Backing

Net Asset Backing for Period Ending:	% Change	Current Month 31 May 2019	Previous Month 30 April 2019
Pre-Tax Net Asset Backing per share	-1.47%	\$0.078*	\$0.0791
Post-Tax Net Asset Backing per share	-1.47%	\$0.078*	\$0.0791
Based on total issued (listed) share capital ^(Note 1)		157,464,343	157,464,343

* Refer to Notes

FOR FURTHER INFORMATION:

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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 9 million unlisted shares currently issued under the Company's Executive Share Plan¹.

On 3 January 2019, Keybridge announced its intention to undertake an on-market buy-back of up to 14,179,752 shares (being ~9% of 157,552,806 total shares on issue) on or before 17 January 2020. During the month, Keybridge bought back nil shares (30 April 2019: Nil).

- (2) **Carrying value of HHY Fund:** 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 pages 71 and 72 of Keybridge's 2018 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).

- (3) **Investment in Foundation Life:** In September 2014, Keybridge invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m (10.13%) equity and NZ\$3.691m loan notes) into Foundation Life², 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 (issued by FLNZ Holdings), which is redeemable by noteholders in 50 years (May 2064) or by FLNZ Holdings (from time to time).

As at month end, Keybridge has recognised its investment in the Foundation Group as follows:

- Loan receivable asset due from FLNZ Holdings carried at face value (plus accrued interest) of NZ\$3.51m (A\$3.3m) (30 April 2019: NZ\$3.48m and A\$3.29m);
- 10.13% equity interest in Foundation Trust carried at cost of NZ\$0.109m (A\$0.102m) (30 April 2019: NZ\$0.109m and A\$0.103m).

Foundation Life has advised policyholders that, subject to obtaining the necessary approvals, it may seek to restructure its insurance policies whereby policyholders will have the option to (a) transfer coverage to a new insurer with no further premium payments; (b) receive a cash payment in lieu of further cover; or (c) being a mixture of (a) and (b).³

Keybridge understands that post-restructuring and discharge of the loan notes, it will have an effective 10.13% interest in any surplus capital held within the Foundation Group.

Keybridge notes that the Foundation Group's reported net asset position is significantly higher than the NZ\$0.109m cost value ascribed to Keybridge's 10.13% interest in Foundation Trust (which owns 100% of FLNZ Holdings/FLNZ).

Accordingly, Keybridge is reviewing (in consultation with its auditors) the accounting treatment and carrying value of its 10.13% interest in Foundation Trust.

Keybridge notes that if it were to realise the approximate net asset position of the Foundation Group (based on their accounts) this would translate to a gain of approximately 1.5 cents relative to Keybridge's current Net Asset Backing. Keybridge, however, gives no indication as to the likelihood of recovery in excess of its current carrying value.

- (4) **Investment in Molopo Energy Limited (ASX:MPO):** Molopo shares have been suspended from trading on ASX since 25 July 2017. At month end, Keybridge has adopted a carrying value (based on the Directors' judgement) of \$0.0143 (31 March 2019: \$0.0159) per share in respect of its Molopo shareholding.

Keybridge notes that the carrying value of the Company's investment in Molopo has been assessed based on the Keybridge Board's judgement of Molopo's estimated net asset backing having regard to the following matters:

- (a) MPO's gross cash position of \$12.649 million as at 31 March 2019⁴;
- (b) MPO's estimated cash outflows for the April - June 2019 quarter being \$0.6m (or \$0.2m per month)⁵; and
- (c) A provision made in respect of Canadian litigation matters in the amount of C\$8.4m (A\$8.961m⁶) (30 April 2019: C\$8.4m; A\$8.887m⁷).

1 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

2 Foundation Life Holdings Trust (**Foundation Trust**) owns 100% of the shares in Foundation Life (NZ) Holdings Limited (**FLNZ Holdings**), which in turn owns 100% of Foundation Life (NZ) Limited (**FLNZ**), the operating company and NZ registered life insurer (together, the **Foundation Group**)

3 Refer <https://www.foundationlife.co.nz/scheme-of-arrangement.html>

4 Refer MPO Quarterly Cashflow Report and Quarterly Activities Report for the quarter ending 31 March 2019, both dated and released on ASX on 29 April 2019

5 As disclosed in MPO's Quarterly Cashflow Report for the quarter ending 31 March 2019 dated 29 April 2019 and released on ASX on 29 April 2019

6 Based on an exchange rate of A\$1.00 : C\$0.9374 (per IRESS) as at 31 May 2019

7 Based on an exchange rate of A\$1.00 : C\$0.9441 (per IRESS) as at 30 April 2019

In Molopo's recently lodged 30 June 2018 Half Year Report⁸ and 2018 Annual Report⁹, it was disclosed that:

- (a) Molopo had determined to write-back a prior C\$8.4m provision for Canadian litigation matters to nil and reflect the legal action as a contingent liability; and
- (b) No value had been ascribed by Molopo to its \$46.366m⁹ (30% shareholding) in Drawbridge Energy Holdings Ltd (**Drawbridge**)¹⁰.

Keybridge is currently reviewing the basis of Molopo's reversal of its C\$8.4m provision for Canadian litigation matters – Keybridge has determined to adopt a conservative position to continue to account for this prior provision in its assessment of Molopo's value (based on Molopo's estimated net asset backing).

Keybridge notes that if this C\$8.4m (A\$8.961m¹¹) provision was not recognised by Keybridge (which would be consistent with Molopo's own treatment), the carrying value of Molopo would increase from \$0.0132 to \$0.049 per share. This would translate to an increase in Keybridge's own Net Asset Backing by 1.13 cents.

Keybridge will consider the carrying value of its investment in Molopo for its full year results, or otherwise, on further information about Molopo's financial position, as released on ASX by Molopo.

For further information in relation to Molopo matters, refer to pages 11 to 19 of Keybridge's 2018 Annual Report.

- (5) **Liabilities Under Convertible Redeemable Promissory Notes:** (ASX: KBCPA): Keybridge issued 4,956,936 and listed Convertible Redeemable Promissory Notes (**CRPN**) on 30 June 2015 and a further 3,598,983 CRPNs on 20 February 2019. The notes have a face value of \$1.00, pay interest at 7% pa and mature 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 and ATO Class Ruling CR 2015/54.

Keybridge carries a liability in respect of the CRPNs based on its mark-to-market (closing price on ASX) value as at month end.

As at month end, 8,000,000 notes with a liability value of \$7.624m (at \$0.953 each) are on issue (30 April 2019: 8,000,000 notes; \$7.68m; \$0.96 each)).

8 Refer MPO Half Year Report for the half year ended 30 June 2018 released on ASX on 6 May 2019

9 Refer MPO 2018 Annual Report for the year ended 31 December 2018 released on ASX on 7 May 2019

10 For further relevant information in relation to Drawbridge in this regard, refer MPO's ASX announcements dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio and 4 February 2019: Quarterly Activities Report the quarter ending 31 December 2018