



FULL YEAR REPORT

**ASX Appendix 4E Preliminary Final Report
Directors' Report
Auditor's Independence Declaration
Financial Report
Audit Report**

30 JUNE 2018



ASX Codes: KBC and KBCPA

Keybridge Capital Limited
A.B.N. 16 088 267 190

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COMPANY SECRETARIAL ENQUIRIES:

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CONTENTS

ASX Appendix 4E	2
Preliminary Final Report Results for Announcement to the Market	
Directors' Report	6
Remuneration Report	29
Auditor's Independence Declaration	38
Consolidated Statement of Profit or Loss and Other Comprehensive Income	39
Consolidated Statement of Financial Position	40
Consolidated Statement of Changes in Equity	41
Consolidated Statement of Cash Flows	42
Notes to Consolidated Financial Statements	43
Directors' Declaration	77
Independent Audit Report	78
Securities Information	83

PREVIOUS SHARE REGISTRY

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Level 6
2 Russell Street
Melbourne, Victoria 3000
Local Telephone: 1300 556 635
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Email: registry@registrydirect.com.au
Website: www.registrydirect.com.au

CORPORATE DIRECTORY**BOARD**

John D. Patton	Chairman
William M. Johnson	Non-Executive Director
Simon K. Cato	Non-Executive Director
Jeremy M. Kriewaldt	Non-Executive Director

COMPANY SECRETARY

Victor P. H. Ho

REGISTERED AND PRINCIPAL OFFICE

Suite 614, Level 6
370 St Kilda Road
Melbourne, Victoria 3004
Telephone: (03) 9686 7000
Facsimile: (08) 9214 9701
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23 Ventnor Avenue
West Perth, Western Australia 6005
Telephone: (08) 9214 9767
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AUDITORS

Deloitte Touche Tohmatsu
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STOCK EXCHANGE

Australian Securities Exchange
Sydney, New South Wales
Website: www.asx.com.au

ASX CODES

KBC (Shares)
KBCPA (Convertible Redeemable Preference Notes)

NEW SHARE REGISTRY (from 3 September 2018)

Advanced Share Registry Services
Main Office
110 Stirling Highway
Nedlands, Western Australia 6009
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Website: www.advancedshare.com.au

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Suite 8H, 325 Pitt Street
Sydney, New South Wales 2000
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Results for Announcement to the Market

Current Reporting Period:	Financial year ended year ended 30 June 2018
Previous Corresponding Period	Financial year ended year ended 30 June 2017
Balance Date:	30 June 2018
Company:	Keybridge Capital Limited (KBC or the Company)
Consolidated Entity:	KBC and controlled entities (Keybridge)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

CONSOLIDATED	June 2018 \$'000	June 2017 \$'000	% Change	Up / Down
Fees income	87	202	57%	Down
Realised gain on sale of investments	1,003	1,808	45%	Down
Unrealised loss on financial assets at fair value through profit or loss	(6,135)	(534)	1049%	Up
Reversal of impairment of loans and receivables	933	-		N/A
Impairment expense	(809)	(6,036)	87%	Down
Excess of net assets over cost on acquisition	804	-	N/A	N/A
Unrealised gain on derivative liabilities	88	62	43%	Up
Gain/(loss) on revaluation of foreign currency assets	170	(354)	148%	Down
Interest	694	747	7%	Down
Dividend	14	281	95%	Down
Other income	37	267	86%	Down
Total Revenue/Other Income/Other Gains and Losses	(3,113)	(3,557)	12%	Down
Share of Associate entity's loss	(761)	(299)	155%	Up
Personnel expenses	(524)	(646)	19%	Down
Corporate expenses	(1,659)	(1,111)	49%	Up
Administration expenses	(345)	(406)	15%	Down
Other expenses	(96)	(120)	20%	Down
Total expenses	(3,385)	(2,582)	31%	Up
Finance expenses	(308)	(308)	-	-
Loss before tax	(6,806)	(6,446)	6%	Up
Income tax benefit/(expense)	-	-	-	-
Loss after tax attributable to members	(6,806)	(6,446)	6%	Up
Basic and diluted loss per share (cents)	(4.30)	(4.06)	6%	Up
Pre-Tax Net Asset Backing per share (cents)	9.9	14.92	34%	Down
Post-Tax Net Asset Backing per share (cents)	9.9	14.92	34%	Down
Pre and Post-Tax Net Asset Backing per share (cents) (with dividends paid during the 2017/2018 year added back)	10.4	14.92	30%	Down
Based on total issued capital	158,080,432	158,812,327		

Results for Announcement to the Market

BRIEF EXPLANATION OF RESULTS AND COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

Keybridge's principal activities during the year were management of its portfolio of listed and unlisted investments/loan assets.

Keybridge generated an overall net gain of \$1.737 million from the sale of the Totana Solar Plant assets after 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 (as announced on 30 April 2018⁵⁹):

- (a) The discharge of the loans led to a reversal of previous years' impairment of the loans and generated a gain of \$932,881 for Keybridge; and
- (b) The consolidation of Bridge Infrastructure Capital Pty Limited (**BIC**) generated a gain of \$804,156 for Keybridge – this was due to Keybridge recognising BIC's net assets on consolidation which was in excess of the consideration paid by Keybridge to acquire the balance of the 50% interest in BIC that it did not previously own.

Keybridge's \$6.806 million net loss position for the year was caused principally by:

- a \$5.912 million provision for impairment in respect of its 49.7 million shareholding in Molopo Energy Limited (ASX:MPO) (suspended from ASX since 25 July 2017). The Directors have reduced the carrying value of MPO from 14.5 cents to 2.6 cents per share during the year following disclosures made by Molopo on 8 May 2018^{16,17,18} and the findings of the Takeovers Panel in the matter of Molopo Energy Limited 10 & 11^{31,34,36}, further details of which are outlined in the Directors' Report;
- a \$0.761 million loss attributable to its 30.98% interest in Associate entity, HHY Fund (ASX:HHY), primarily due to the adverse share price performance of Yowie Group Ltd (ASX:YOW);
- a \$0.659 million net unrealised loss on other (non-MPO) investments; and
- the \$0.308 million interest distributions paid to Convertible Redeemable Promissory Note (CRPN) holders, which is recognised as an expense.

Keybridge generated a total net realised and unrealised loss of \$5.132 million (pre- and post-tax) for the year from its securities investment and trading activities, comprising:

- (a) Realised gains of \$1.003 million (from cost), which includes:
 - (i) \$1.154 million realised gain on the sale of shares in PTB Group Limited (ASX:PTB); and
 - (ii) \$0.153 million realised loss on the sale of shares in SIV Asset Management Limited (ASX:SAM);
- (b) Unrealised loss of \$5.2 million, which includes:
 - (i) \$0.529 million unrealised gain attributable to Metgasco Limited (ASX:MEL);
 - (ii) \$0.185 million unrealised gain attributable to Pershing Square Holdings Ltd (PSH);
 - (iii) \$5.476 million unrealised loss attributable to its 46 million shareholding in Molopo Energy Limited (ASX:MPO); and
 - (iv) \$0.354 million unrealised loss attributable to Yowie Group Ltd (ASX:YOW);
- (c) The accounting reversal of prior year unrealised gain/loss on investments sold during the year of \$0.958 million (which is offset against the unrealised loss of \$5.2 million (in (b) above) to arrive at the \$6.135 million unrealised loss on financial assets at fair value through profit or loss shown in the Operating Results).

Please refer to the Directors' Report and financial statements and notes thereto for further information on a review of Keybridge's operations and financial position and performance for the year ended 30 June 2018.

Results for Announcement to the Market

DIVIDENDS

Consistent with its stated Dividend Policy to make annual distributions of at least 0.5 cent per share (referred to below), Keybridge has declared payment of a fully franked dividend as follows:

Dividend Rate	Record Date	Expected Payment Date	Franking
0.50 cent per share	21 September 2018	28 September 2018	100% franked

Keybridge's Dividend Reinvestment Plan (**DRP**) will not apply to this dividend.

During the financial year, Keybridge also paid a dividend, as follows:

Dividend Rate	Record Date	Payment Date	Franking
0.5 cent per share	30 November 2017	8 December 2017	100% franked

As at 30 June 2018, Keybridge had:

- \$1.815 million in its Profits Reserve account, which is available to fund the payment of dividends to shareholders in the future; and
- \$7.702 million Franking Credits, which is sufficient to fund the payment of fully franked (at Keybridge's applicable 27.5% company tax rate) dividends and CRPN interest distributions totalling \$20.31 million.

Dividend Policy

On 8 November 2017², Keybridge announced a new Dividend Policy, as follows:

It is the objective of Keybridge to provide a regular and stable distribution to shareholders after the announcement of its 30 June year end operating results. These results are normally announced at the end of August each year and Keybridge will endeavour to announce its proposed dividend at this time.

Dividends will be funded from Keybridge's Profits Reserve account, which comprises appropriations from the Company's net profits earned during relevant periods from time to time.

Keybridge intends to make annual distributions to shareholders of at least 0.5 cent per share, to the extent permitted by law and subject to prudent business practice. It is envisaged that shareholder distributions will be made once per year to limit costs and administration. Dividends will be franked to the extent that available franking credits permit.

Keybridge also holds a number of legacy assets (primarily loan receivables). As and when such assets are realised into cash or liquid securities by the Board in the ordinary course of business, Keybridge may also undertake further distributions of fully-franked dividends and or capital returns to shareholders. Proposed capital returns will be subject to prior shareholder approval.

CRPN DISTRIBUTIONS

During the financial year, Keybridge paid interest distributions to holders of its Convertible Redeemable Promissory Notes (ASX:KBCPA) (**CRPN**) as follows:

Distribution Rate	Record Date	Payment Date	Franking ³
1.75 cent per note	12 June 2018	20 June 2018	100% franked
1.75 cent per note	15 March 2018	20 March 2018	100% franked
1.75 cent per note	12 December 2017	20 December 2017	100% franked
1.75 cent per note	14 September 2017	20 September 2017	100% franked

Results for Announcement to the Market

CONTROLLED ENTITIES and ASSOCIATES and JOINT VENTURE ENTITIES

Keybridge has accounted for the following investment as an Associate entity (on an equity accounting basis):

- 30.89% interest (25,146,973 units) in HHY Fund (ASX:HHY) (30 June 2017: 26.46%; 22,646,973 shares).

In addition, on 27 April 2018, Keybridge acquired the balance of the 50% interest in Bridge Infrastructure Capital Pty Limited (**BIC**) that it did not previously own. Keybridge also gained BIC's wholly owned subsidiaries, Bridge Infrastructure Capital (Midlum) Pty Limited and BIC Europe Limited, as controlled entities. BIC was previously regarded as a jointly controlled company and had been accounted under the equity method (with the investment having been impaired to a nil carrying value in previous years). BIC was the ultimate owner of the Totana Solar Park asset in Spain, which development was funded by debt finance provided by Keybridge. Keybridge had determined to consolidate the corporate ownership structure contemporaneously with the completion of the sale of Totana and the repayment of related loans on 27 April 2018.

ANNUAL GENERAL MEETING (AGM)

Pursuant to the ASX Listing Rules, Keybridge gives notice that its 2018 AGM is expected to be held on 22 November 2018.

For and on behalf of the Directors,



Victor Ho
Company Secretary

Date: 31 August 2018

Telephone: (08) 9214 9767

Email: cosec@keybridge.com.au

DIRECTORS' REPORT

The Directors present their Directors' Report on Keybridge Capital Limited ABN 16 088 267 190 (**Company** or **KBC**) and its controlled entities (the **Consolidated Entity** or **Keybridge**) for the financial year ended 30 June 2018 (**Balance Date**).

Keybridge is a company limited by shares that was incorporated in New South Wales in June 1999 and has been listed on the Australian Securities Exchange (**ASX**) since December 1999 (ASX Code : KBC).

The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

PRINCIPAL ACTIVITIES

Keybridge is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets in the 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). Keybridge is also the Investment Manager of the HHY Fund.

NET ASSET BACKING

CONSOLIDATED	June 2018 \$'000	June 2017 \$'000
Gross assets	20,021	28,199
Less: Liabilities	(4,373)	(4,501)
Net assets	15,648	23,698
Pre-tax Net Asset Backing per share (cents)	9.9	14.92
Less: Net deferred tax asset/liabilities /tax provision		-
Net assets (after tax)	15,648	23,698
Post-tax Net Asset Backing per share (cents)	9.9	14.92
Value of dividends paid to shareholders in previous 12 months	791	-
Adjusted Pre and post-tax NTA backing per share (cents) (with dividends paid during the 2017/2018 year added back)	10.4	N/A
Based on total issued shares	158,080,432	158,812,327

FINANCIAL POSITION

CONSOLIDATED	June 2018 \$'000	June 2017 \$'000
Cash	5,008	1,414
Investments	7,278	11,836
Loans and receivables	5,401	11,835
Investment in Associate entity	2,082	2,584
Other assets	252	530
Gross Assets	20,021	28,199
Convertible redeemable promissory notes liability	(4,053)	(4,141)
Other liabilities	(320)	(360)
Total Liabilities	(4,373)	(4,501)
Net deferred tax asset / liabilities	-	-
Net Assets	15,648	23,698
Issued capital	253,638	253,717
Share-based payments reserve	322	693
Profits reserve	1,815	2,466
Foreign currency translation reserve	(3)	-
Accumulated losses	(240,124)	(233,178)
Total Equity	15,648	23,698

DIRECTORS' REPORT

OPERATING RESULTS

CONSOLIDATED	June 2018 \$'000	June 2017 \$'000
Fees income	87	202
Realised gain on sale of investments	1,003	1,808
Unrealised loss on financial assets at fair value through profit or loss	(6,135)	(534)
Reversal of impairment of loans and receivables	933	-
Impairment (expenses)/reversal	(809)	(6,036)
Excess of net assets over cost on acquisition	804	-
Unrealised gain on derivative liabilities	88	62
Gain/(loss) on revaluation of foreign currency assets	170	(354)
Interest	694	747
Dividend	14	281
Other income	37	267
Total Revenue/Other Income/Other Gains and Losses	(3,113)	(3,557)
Share of Associate entity's loss	(761)	(299)
Personnel expenses	(524)	(646)
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Administration expenses	(345)	(406)
Other expenses	(96)	(120)
Total expenses	(3,385)	(2,582)
Finance expenses	(308)	(308)
Loss before tax	(6,806)	(6,446)
Income tax benefit/(expense)	-	-
Loss after tax attributable to members	(6,806)	(6,446)

Keybridge generated an overall net gain of \$1.737 million from the sale of the Totana Solar Plant assets after 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 (as announced on 30 April 2018⁵⁹):

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- a \$0.761 million loss attributable to its 30.98% interest in Associate entity, HHY Fund (ASX:HHY), primarily due to the adverse performance of Yowie Group Ltd (ASX:YOW);
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- (c) The accounting reversal of prior year unrealised gain/loss on investments sold during the year of \$0.958 million (which is offset against the unrealised loss of \$5.2 million (in (b) above) to arrive at the \$6.135 million unrealised loss on financial assets at fair value through profit or loss shown in the Operating Results).

LOSS PER SHARE

CONSOLIDATED	June 2018 cents	June 2017 cents
Loss per share (cents)	(4.30)	(4.06)

DIVIDENDS

Consistent with its stated Dividend Policy to make annual distributions of at least 0.5 cent per share (referred to below), Keybridge has declared payment of a fully franked dividend as follows:

Dividend	Record Date	Expected Payment Date	Franking
0.50 cent per share	21 September 2018	28 September 2018	100% franked

Keybridge's Dividend Reinvestment Plan¹ (**DRP**) will not apply to this dividend.

During the financial year, Keybridge also paid a dividend, as follows:

Dividend Rate	Record Date	Payment Date	Franking
0.5 cent per share	30 November 2017	8 December 2017	100% franked

As at 30 June 2018, Keybridge had:

- \$1.815 million in its Profits Reserve account, which is available to fund the payment of dividends to shareholders in the future; and
- \$7.702 million Franking Credits, which is sufficient to fund the payment of fully franked (at Keybridge's applicable 27.5% company tax rate) dividends and CRPN interest distributions totalling \$20.31 million.

¹ Refer KBC ASX Announcement dated 27 February 2015: Amendments to Dividend Reinvestment Plan Rules

DIRECTORS' REPORT

Dividend Policy

On 8 November 2017², Keybridge announced a new Dividend Policy, as follows:

It is the objective of Keybridge to provide a regular and stable distribution to shareholders after the announcement of its 30 June year end operating results. These results are normally announced at the end of August each year and Keybridge will endeavour to announce its proposed dividend at this time.

Dividends will be funded from Keybridge's Profits Reserve account, which comprises appropriations from the Company's net profits earned during relevant periods from time to time.

Keybridge intends to make annual distributions to shareholders of at least 0.5 cent per share, to the extent permitted by law and subject to prudent business practice. It is envisaged that shareholder distributions will be made once per year to limit costs and administration. Dividends will be franked to the extent that available franking credits permit.

Keybridge also holds a number of legacy assets (primarily loan receivables). As and when such assets are realised into cash or liquid securities by the Board in the ordinary course of business, Keybridge may also undertake further distributions of fully-franked dividends and or capital returns to shareholders. Proposed capital returns will be subject to prior shareholder approval.

Keybridge adopted this Dividend Policy due to the Board reaching the view that the Company has a reasonable level of Profits Reserve to fund regular dividend distributions, at least in the next 2-3 years, which means Keybridge is not reliant on funding dividends only from net profits generated in respect of the prevailing/current half year or full year period. The Board also considered that having a formal Dividend Policy is a prudent initiative to focus the Company's activities to achieve results that justify the payment of dividends consistent with the policy and hence enhancing shareholder value.

CRPN DISTRIBUTIONS

During the financial year, the Company paid interest distributions to holders of its Convertible Redeemable Promissory Notes (ASX:KBCPA) (**CRPN**) as follows:

Distribution Rate	Record Date	Payment Date	Franking ³
1.75 cent per note	12 June 2018	20 June 2018	100% franked
1.75 cent per note	15 March 2018	20 March 2018	100% franked
1.75 cent per note	12 December 2017	20 December 2017	100% franked
1.75 cent per note	14 September 2017	20 September 2017	100% franked

SECURITIES ON ISSUE

Class of Security	30 June 2018		30 June 2017	
	Quoted on ASX	Unlisted	Quoted on ASX	Unlisted
Fully paid ordinary shares (ASX:KBC)	158,080,432	-	158,812,327	-
Executive Share Plan (ESP) shares ⁴	-	9,000,000	-	15,000,000
Convertible Redeemable Promissory Notes (ASX:KBCPA) ⁵	4,401,047	-	4,401,047	-

² Refer KBC ASX Announcement dated 8 November 2017: Dividend Policy

³ A fixed interest rate of 7% per annum is generally payable in arrears on 20 March, 20 June, 20 September and 20 December of each year. CRPNs are regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend'. Interest payments will be fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component. 'Qualified' Australian resident holders will have access to franking credits in this regard. Further details are in Note 8 of the accompanying financial statements and in the CRPN Prospectus (dated 17 June 2015) and ATO Class Ruling CR 2015/54.

⁴ Issued on 10 December 2014 (refer KBC ASX Announcement dated 19 December 2014: Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares) after receipt of shareholder approval at an annual general meeting held on 28 November 2014 (refer KBC Notice of AGM released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: Results of AGM).

⁵ Keybridge issued Convertible Redeemable Promissory Notes on 30 June 2015 (refer KBC ASX Announcement dated 18 June 2015: Appendix 3B) after receipt of shareholder approval on 28 November 2014 (refer KBC Notice of AGM released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: Results of AGM). 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. Further details are in Note 8 of the accompanying financial statements and in the CRPN Prospectus (dated 17 June 2015) and ATO Class Ruling CR 2015/54.

DIRECTORS' REPORT

ON-MARKET BUY BACKS

The Company's 12 month on-market buy-back programmes in respect of its shares (announced on 18 January 2017) and CRPNs (also announced on 18 January 2017) were completed during the financial year with:

- 731,895 shares being bought-back (between a range of \$0.10 to \$0.115 per share) at a total cost of \$79,450 under the programme (and also during the financial year), as outlined in the Company's Final Buy-Back Notice lodged on ASX on 5 December 2017); and
- No CRPNs being bought-back under the programme, as outlined in the Company's Final Buy-Back Notice lodged on ASX on 18 January 2018.

On 5 December 2017, the Company announced its intention to undertake a fresh 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.

On 24 January 2018, the Company announced its intention to undertake a fresh on-market buy-back of up to 440,104 CRPNs (being ~10% of 4,401,047 total notes on issue) on or before 18 January 2019.

No shares or CRPNs have been bought-back under these fresh market buy-back programmes as at the date of this report.

REVIEW OF OPERATIONS

Net Assets Weightings

A summary of Keybridge's net asset weighting (by value and as a percentage of net assets) is:

	30 June 2018		31 December 2017		30 June 2017	
	\$'m	% Net Assets	\$'m	% Net Assets	\$'m	% Net Assets
Cash	5.008	32%	1.821	8%	1.414	6%
Investment in Associated entity	2.082	13%	3.261	14%	2.584	11%
Other Listed Securities	6.879	44%	8.918	39%	11.501	49%
Managed Funds	0.300	2%	0.203	1%	0.232	1%
Other Investments	0.100	1%	0.099	1%	0.103	1%
Loan Receivables:						
• Insurance	3.135	20%	3.173	14%	3.250	14%
• Property	0.885	6%	0.885	4%	0.885	4%
• Private Equity	0.533	3%	0.504	2%	0.511	2%
• Infrastructure	-	-%	6.482	28%	6.432	27%
• Other	0.848	5%	0.672	3%	0.757	3%
Other Assets	0.252	2%	1.163	5%	0.530	2%
Convertible Redeemable Promissory Notes	(4.053)	(26%)	(4.071)	(18%)	(4.141)	(17%)
Provision for tax	-	-%	-	-%	-	-%
Other Liabilities	(0.320)	(2%)	(0.185)	(1%)	(0.360)	(1%)
Net Assets	15.649	100%	22.925	100%	23.698	100%

Currency Exposure

A summary of Keybridge's exposure to foreign currencies (based on net assets held) is:

% of Net Assets	30 June 2018	31 December 2017	30 June 2017
Euros	47%	28%	29%
Australian Dollars	27%	54%	54%
New Zealand Dollars	22%	16%	15%
US Dollars	4%	2%	2%

DIRECTORS' REPORT

Major Investment Holdings

A summary of Keybridge's major investment holdings (by value and as a percentage of net assets) is:

Security	Code	Industry Sector	30 June 2018		31 December 2017		30 June 2017	
			\$'m	% Net Assets	\$'m	% Net Assets	\$'m	% Net Assets
Molopo Energy Limited	MPO	Energy	1.196	8%	6.442	28%	7.204	30%
Metgasco Limited	MEL	Energy	2.150	14%	1.961	9%	0.928	4%
HHY Fund	HHY	Financials	2.082	13%	3.261	14%	2.584	11%
Pershing Square Holdings Ltd	PSH	Financials	1.478	9%	-	-	-	-
Monash Absolute Investment Company Limited	MA1	Financials	1.199	7%	-	-	-	-
Yowie Group Ltd	YOW	Food, Beverage	0.521	3%	-	-	-	-
Copper Strike Limited	CSE	Materials	0.312	2%	0.514	2%	0.312	1%
Other managed funds	-	-	0.300	2%	0.203	1%	0.232	1%
Other listed securities	-	-	0.022	<1%	0.001	<1%	3.057	12%
Other unlisted securities	-	-	0.100	<1%	0.099	<1%	0.103	<1%

Major Loan Receivable Holdings

A summary of Keybridge's major loan receivable holdings is:

Loan Exposure to Industry Sector	30 June 2018 (\$'m)			31 December 2017 (\$'m)			30 June 2017 (\$'m)		
	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity	6.529	(5.996)	0.533	6.500	(5.996)	0.504	6.507	(5.996)	0.511
Property	4.189	(3.304)	0.885	4.189	(3.304)	0.885	4.189	(3.304)	0.885
Insurance	3.135	-	3.135	3.173	-	3.173	3.250	-	3.250
Infrastructure	-	-	-	12.564	(6.082)	6.482	12.514	(6.082)	6.432
Other	2.229	(1.381)	0.848	0.957	(0.285)	0.672	0.883	(0.126)	0.757
Total	16.081	10.68	5.401	27.383	(15.667)	11.716	27.343	(15.508)	11.835

Investment in HHY Fund (ASX:HHY)

Keybridge is the largest shareholder in the HHY Fund with 25,146,973 units (30.89%⁶) held currently and as at Balance Date (30 June 2017: 22,646,973 units (26.46%)), which were acquired at an average cost of \$0.1115 per unit.

HHY is regarded as an Associated Entity (i.e. an entity in which Keybridge has a greater than 20% interest and by virtue of the Company also being the Investment Manager of HHY, is considered to have 'significant influence' over) and is accounted for under the equity method in the Keybridge 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 – Accounting Policy) of the accompanying financial statements).

As at 30 June 2018, Keybridge's investment in HHY had a carrying value of \$0.083 per unit (\$2.082 million); this compares with HHY's last bid price on the ASX of \$0.069 per unit (\$1.735 million) and HHY's after-tax net tangible asset (NTA) backing of \$0.084 per unit (\$2.111 million), as at 30 June 2018.

During the year, HHY units traded on the ASX within a range of \$0.058 (in May 2018) to \$0.135 (in September 2017) with a closing price of \$0.069 (and \$5.617 million market capitalisation) as at 30 June 2018 and a current closing price of \$0.062 (as at 29 August 2018).

6 Refer KBC's ASX Announcement dated 19 January 2018: Change of Substantial Holder Notice for HHY

DIRECTORS' REPORT

Aurora Funds Management Limited (**AFML**) is the Responsible Entity of HHY and Keybridge is the Investment Manager⁷ of HHY. During the year, the Company earned \$60,170 investment management fees income in respect of its investment management of HHY.

HHY is currently predominately invested in Australian listed equities but its investment strategy includes investments in listed Australian and international equities, options, convertible securities and other derivative securities.

On 30 October 2017⁸, HHY announced its intention to undertake an on-market buy-back of up to 8,558,344 units (being ~10% of 85,583,437 total units on issue) on or before ~13 November 2018. During the year, 4,179,899 units have been bought-back (between a range of \$0.10 to \$0.12 per unit) at a total cost of \$494,044 under this programme, as set out in HHY's most recent Daily Buy-Back Notice lodged on ASX on 19 January 2018⁹.

Information concerning HHY may be viewed on its website: <http://www.aurorafunds.com.au/>

HHY's market announcements may also be viewed from the ASX website (www.asx.com.au) under ASX code "HHY".

Investment in Molopo Energy Limited (ASX:MPO)

As at Balance Date, Keybridge is the second largest shareholder in Molopo with 46,017,543 shares (18.48%¹⁰) (30 June 2017: 49,683,828 shares and 19.95%), which were acquired at an average cost of \$0.15 per share.

Molopo shares have been suspended from trading on ASX since 27 July 2017 as at the previous (30 June 2017) balance date, Keybridge adopted a carrying value based on a closing (last bid) price of \$0.145 as at 26 May 2017 (the day prior to its suspension on 29 May 2017). Molopo shares resumed trading on ASX on 4 July but was suspended again on 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 its suspension.

At Balance Date, Keybridge has adopted a carrying value of \$0.026 per Molopo share, resulting in a provision for impairment expense of \$5.912 million being recognised for the financial year.

This impairment has occurred as a consequence of the conduct of the previous Molopo Board having entered into a series of transactions (the Orient and Drawbridge Transactions) which have caused a reduction of US\$35 million (or nearly A\$50 million) in Molopo's cash reserves in circumstances where such conduct have been the subject of:

- A declaration of 'unacceptable circumstances' by the Takeovers Panel in the matter of Molopo Energy Limited 10 & 11^{31,34,36}; and
- The ASX issuing a 'Breaches Letter' to Molopo on 11 May 2018 where ASX advised that it considers that MPO has committed serious breaches of the ASX Listing Rules and may also have breached the Corporations Act for making misleading disclosures to ASX and as such, ASX has referred their findings to ASIC for further investigation³⁰.

⁷ Refer KBC ASX Announcement 1 July 2016: Sale of Aurora Funds Management

⁸ Refer HHY ASX Announcement dated 30 October 2017: Appendix 3C – Announcement of Buy-Back

⁹ Refer HHY ASX Announcement dated 19 January 2018: Appendix 3E – Daily Buy-Back Notice

¹⁰ Refer KBC's ASX Announcement dated 11 July 2017: Change of Substantial Holder Notice for MPO

DIRECTORS' REPORT

The \$0.026 per share carrying value for Molopo was based on the Keybridge Board's judgement of Molopo's estimated net asset backing having regard to the following matters:

- (a) Molopo's gross cash position of A\$15.021 million as at 30 June 2018¹¹;
- (b) Molopo's C\$8.4 million (A\$8.631 million¹²) provision in respect of Canadian litigation matters¹⁶;
- (c) No value has been ascribed to Molopo'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\$24.57 million¹³), as at 31 March 2018¹⁸; and
- (d) Drawbridge's cash outflows for the 6 month period between April and September 2018 have not been taken into account – this was estimated to be US\$6.61 million (gross) or US\$1.1 million (A\$1.49 million¹³) per month¹⁸.

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

Further details concerning Molopo and the circumstances revealed in May 2018^{16,17,18,30} concerning the conduct of the former Directors of Molopo – Messrs Baljit Singh Johal (former Chairman and Managing Director), Richard Matthews (former Finance Director and Company Secretary) and Matthew Edward Cudmore (former Non-Executive Director) (together, **Former Directors**), who were all removed as Directors at Molopo's AGM held on 31 May 2018¹⁴ - are set out below.

Keybridge notes that these circumstances are being reviewed by the new MPO Board - Messrs Roger Corbett AO, Anthony Hartnell AM, Ralph Curton and William Johnson (being also a Director of Keybridge), who were elected at Molopo's AGM on 31 May 2018¹⁵ - who are "now vigorously pursuing multiple avenues to recover" Molopo's funds¹⁷. 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 the conduct of former Molopo Directors in the circumstances described below.

Information concerning Molopo may be viewed on its website: www.molopoenergy.com.

Molopo's market announcements may also be viewed from the ASX website (www.asx.com.au) under ASX code "MPO".

Orient and Drawbridge Transactions

On 8 May 2018, Molopo released its 2017 Annual Report¹⁶ and March 2018 Quarterly Report¹⁷ (both late per the ASX Listing Rules and Corporations Act) and an ASX Announcement (Molopo De-Risks by Diversifying its Oil and Gas Exploration Portfolio)¹⁸ which disclosed for the first time a series of major transactions carried out between January and March 2018 involving a further US\$23.5 million cash injection into Orient and a US\$35 million vend of the Orient Project in exchange for a 30% non-voting interest in Drawbridge (which values Drawbridge, post vend, at US\$117 million or more than A\$150 million).

By way of background, set out below is a summary of the Orient and Drawbridge Transactions which has seen a total of at least US\$35 million (or nearly A\$50 million) of Molopo shareholders' funds expended in a little over 7 months.

¹¹ Refer MPO Quarterly Activities and Cashflow Reports for the quarter ending 30 June 2018 dated 31 July 2017 and released on ASX on 1 August 2018

¹² Based on an exchange rate of A\$1.00 : C\$0.9732 (per IRESS) as at 30 June 2018

¹³ Based on an exchange rate of A\$1.00 : US\$0.7407 (per IRESS) as at 30 June 2018

¹⁴ Refer MPO Notice of AGM and Explanatory Statement dated and released on ASX on 2 May 2018 and MPO's ASX announcement dated 31 May 2018: AGM Results

¹⁵ Refer MPO's ASX announcements dated 1 June 2018: Board Changes and 4 June 2018: Appointment of Chair

¹⁶ Refer MPO Annual Report for the year ended 31 December 2017 released on ASX on 8 May 2018

¹⁷ Refer MPO Quarterly Report for the quarter ending 31 March 2018 dated and released on ASX on 8 May 2018

¹⁸ Refer MPO ASX announcement dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio

DIRECTORS' REPORT

1. The Orient Transaction – US\$11.5 Million

- 1.1. On or about 25 July 2017, Molopo paid Gil Feiler US\$7 million to acquire 50% of Orient FRC Ltd (**Orient**) (which was announced a month later on 22 August 2017¹⁹ – the **Orient Announcement**).
- 1.2. Orient's 50% earn-in interest in an oil and gas prospect located in Florida, USA with Kerogen Florida Energy LP (**Kerogen**) (with the primary asset being the Indigo Lease) was secured by Kerogen (from the landholder) for an 8-year lease term expiring on 26 May 2019) and Orient had an obligation to drill and spud a first commitment well by 1 May 2018²⁰ (the **Orient Project**).
- 1.3. Orient was incorporated in the British Virgin Islands (**BVI**) on 8 September 2014 with no apparent oil and gas exploration and development track record nor any physical operations (ie. office and staff) and Israeli-resident Gil Feiler has no oil and gas credentials – Molopo has not disclosed how, when and upon what terms Gil Feiler had secured the prospects from Kerogen before on-selling a 50% interest in Orient at a valuation for Orient of US\$14 million.
- 1.4. Keybridge had initiated Victorian Supreme Court proceedings^{39,40} against Molopo to, inter alia, find out information about the Orient Transaction and as part of those proceedings, had commissioned an independent expert report (prepared by RISC Advisory) which has concluded, inter alia, that Orient's interest in the Florida prospects is valued at between US\$0 and US\$395,000.
- 1.5. On 11 December 2017, Molopo loaned US\$4.5 million to Orient²¹ (as announced on 11 December 2017 – the **Orient Funding Announcement**); this advance occurred on the day Molopo's long-standing Company Secretary was suddenly terminated for no apparent reason²².
- 1.6. Gil Feiler (being the other 50% shareholder of Orient) was also required to advance a US\$4.5 million loan to Orient as confirmed by Molopo in the Orient Funding Announcement. On 23 April 2018²³, in response to a query from the ASX, Molopo advised that "*Dr Feiler has not to date executed any shareholder loan agreement with Orient*" and "*To date, Dr Feiler has not contributed a shareholder loan*" – Molopo failed to mention that Gil Feiler had ceased to be an Orient shareholder some 3 months earlier on 30 January 2018, having been bought-out of his remaining 50% interest for a further US\$7 million.

2. The Orient Transaction – 'Stage 2' – US\$23.5 Million

- 2.1. During the January to March 2018 quarter^{17,18}, Molopo invested a further US\$23.5 million into Orient, which funds were applied as outlined below.
- 2.2. On 30 January 2018, Orient spent US\$7 million to buy-back Gil Feiler's 50% shareholding (held via Gil Feiler's 'special purpose vehicle', ESGM Investments Limited²⁴) – this was funded from Molopo's loans to Orient as announced on 8 May 2018^{16,17,18}.
- 2.3. Thus, in a little over 6 months, Gil Feiler received US\$14 million of Molopo's money to sell out of Orient which Molopo had previously announced had no other assets except the right to drill exploration wells on the Florida prospect, the value of which an Independent Expert has assessed at between US\$0 - US\$395,000. Gil Feiler's exit from Orient occurred even though he had not yet provided his share of funding (US\$4.5 million) into Orient, as Molopo advised he was required to do (as announced in the Orient Funding Announcement), when Molopo contributed its US\$4.5 million).
- 2.4. At some stage on or before 7 March 2018, Molopo advanced a further US\$16.5 million to Orient - this was in addition to the US\$4.5 million loaned to Orient on 11 December 2017²¹ and the US\$7 million loaned to fund Gil Feiler's buy-back on 30 January 2018¹⁸).
- 2.5. Orient, in turn, provided a US\$21 million intercompany loan to a wholly-owned subsidiary, Orient FRC (US) LLC (**Orient US**)¹⁸.
- 2.6. Orient US was registered in Texas, USA on 22 February 2016 and changed its name from Palisades Energy LLC on 14 December 2017 – this company was previously associated with Chris Burkard, who is associated with the Drawbridge Group¹⁸; Chris Burkard was also the former VP – Operations of 'Kerogen Exploration LLC'.²⁵

19 Refer MPO ASX announcement dated 22 August 2017: Molopo Acquires Interest in US Oil and Gas Project

20 Molopo announced on 8 May 2018 that the Indigo Lease term has been extended to 23 September 2014 and Orient's obligation to spud the first commitment well has been extended to 1 April 2019.

21 Refer MPO ASX announcement dated 11 December 2017: Update on Orient FRC Ltd Investment

22 Refer MPO ASX announcement dated 11 December 2017: Change of Company Secretary

23 Refer MPO ASX announcement dated 23 April 2018: Response to Disclosure Query for Release to ASX

24 ESGM Investments Limited was incorporated in Belize on 18 October 2017

25 <https://www.linkedin.com/in/chris-burkard-8635503/>

DIRECTORS' REPORT

3. The Drawbridge Transaction – US\$35 Million

- 3.1. On 21 February 2018, Orient entered into a 'Contribution Agreement' with BVI registered Drawbridge Energy Holdings Ltd²⁶ (**Drawbridge Holdings**) pursuant to which (the **Drawbridge Transactions**)^{16,17,18}:
 - 3.1.1. Orient agreed to assign its interest in the Orient Project to Orient US;
 - 3.1.2. Orient agreed to transfer its interest in Orient US to Drawbridge;
 - 3.1.3. Molopo received 'Class A' non-voting shares in Drawbridge, representing 30% of Drawbridge – the balance of 70% being held via 'Class B' shares by BVI registered Sopris Energy Investments Limited²⁷ (**Sopris**); and
 - 3.1.4. Orient agreed to extinguish its US\$21 million intercompany loan to Orient US.
- 3.2. The Drawbridge Transactions were completed on 7 March 2018 following which Drawbridge Energy Operations & Management LLC²⁸ (**Drawbridge Operations**) were appointed to operate the Orient Project.
- 3.3. Thus, Molopo vended Orient US (holding the US\$14 million Orient Project and US\$21 million cash) for a 30% non-voting interest in Drawbridge Holdings, placing a post-vend valuation of US\$117 million on Drawbridge Holdings.
- 3.4. Drawbridge Holdings is stated as having the following oil and gas projects¹⁸, with an ascribed (pre-vend) value of ~US\$82 million based on the US\$35 million Orient US vend:
 - 3.4.1. **Texas, Permian Basin:** A US\$3.673 million investment into newly-formed Fenix DB LLC²⁹, which acquired 6,000 net acres in Texas, USA containing 37 wells producing 65-90 barrels of oil per day, with Drawbridge to fund acquisitions (US\$2 million) and an initial 5 well drilling programme (US\$1 million) and Drawbridge holding Class B shares with a right to a preferential return until its investment is recouped after which it will convert into 70 - 85% of Class A shares;
 - 3.4.2. **Texas, South-East Gulf Coast (Onshore):** Drawbridge has licensed 50 square miles of (3D seismic) data and has secured 400 leasehold acres;
 - 3.4.3. **Texas, South-East Gulf Coast (Offshore):** on 21 March 2018, Drawbridge was the successful bidder of 7 offshore Gulf of Mexico lease blocks totalling 40,320 gross acres; and
 - 3.4.4. **Texas, East Crystal City (Jackson County) Prospect:** Drawbridge has a 25% interest with its share of funding estimated to be US\$400,000.
- 3.5. A "Poison Pill" has also been put in place - if Baljit Johal (former Molopo's Chairman and Managing Director) ceases to be a Director of Drawbridge Holdings, the other 70% shareholder, Sopris (at its complete discretion) has to approve Molopo's replacement nominee – Molopo has not disclosed whether it has been successful in procuring Mr Johal resignation and the appointment of a new nominee in this regard. No details as to the ownership of Sopris have been provided to date.

Further details are also in the following Keybridge Media Releases, which are available on the Keybridge website (www.keybridge.com.au):

- 23 January 2018: Letter of Concerns to Molopo Energy Limited Shareholders;
- 11 May 2018: Letter to Molopo Shareholders for Upcoming AGM;
- 23 May 2018: Further Letter to Molopo Shareholders for AGM – Orient and Drawbridge Transactions and Breaches of ASX Listing Rules; and
- 24 May 2018: Questions on Notice to Auditor at MPO AGM.

²⁶ Drawbridge Energy Holdings Ltd was incorporated in the BVI on 5 February 2018

²⁷ Sopris Energy Investments Limited was incorporated in the BVI on 5 February 2018

²⁸ Drawbridge Energy Operations & Management LLC was incorporated in Delaware, USA on 19 December 2017

²⁹ Fenix DB LLC was incorporated in Texas, USA on 31 January 2018

DIRECTORS' REPORT

Molopo's Breaches of ASX Listing Rules and ASIC Investigations

On 11 May 2018, MPO released an ASX Announcement (MPO Breaches of ASX Listing Rules³⁰) containing a letter from the ASX to MPO (**ASX Breaches Letter**) about the conduct of Molopo and its Directors which sets out, amongst others, the following matters:

- Molopo has committed serious breaches of the Listing Rules;
- Molopo may have breached the Corporations Act for making misleading disclosures to ASX;
- ASX has referred its findings to ASIC for potential action against Molopo;
- ASX requires the Orient and Drawbridge Transactions be put to Molopo shareholders for approval;
- Molopo will remain suspended from ASX until ASIC has completed its investigations;
- Molopo must re-comply with the admission requirements of Listing Rules to be re-admitted to the ASX;
- ASX may exercise their discretion to deny re-admission given Molopo's conduct and breaches of the Listing Rules; and
- ASX may rule that the Former Directors (Messrs Johal, Matthews and Cudmore) fail the 'good fame and character test' (due to their involvement in Molopo's breaches), which is one of the conditions for re-admission to ASX.

It is clear from Molopo's interactions with ASX and Molopo's ASX announcements that the Former Directors of Molopo omitted to disclose material matters both to ASX and its own shareholders, including completed aspects of the Orient and Drawbridge Transactions.

Further details concerning the ASX Breaches Letter are in Keybridge's Media Release dated 23 May 2018: Further Letter to Molopo Shareholders for AGM – Orient and Drawbridge Transactions and Breaches of ASX Listing Rules, which is available on the Keybridge website (www.keybridge.com.au).

Takeover Bids for Molopo

(a) Aurora Funds Management Limited

On 27 July 2017, the unlisted Aurora Fortitude Absolute Return Fund (**AFARF**) announced an intention to make an off-market takeover bid for Molopo for 100% of the shares of Molopo at \$0.18 per share, to be satisfied by cash (capped at \$5 million in total) and or the equivalent value in AFARF units, which may be redeemed off-market at the prevailing net asset value based redemption price in accordance with AFARF's constitution and fund updates. The bid consideration had been subsequently amended by AFARF to \$0.135 and potentially to \$0.153 (subject to conditions) per MPO share.

The proposed AFARF bid was subject to a range of 'defeating conditions', which were summarised in ABW's ASX announcement dated 27 July 2017: Aurora Fortitude Absolute Return Fund (AFARF) announces cash and/or scrip takeover bid for Molopo Energy Limited (ASX:MPO).

Aurora Absolute Return Fund (ASX:ABW) is fully invested in AFARF and Aurora Funds Management Limited (**AFML**) is the Responsible Entity of both ABW and AFARF.

AFARF's bid expired on 20 August 2018 on account of the 'defeating conditions' not being freed by AFML.

Further details concerning AFARF's bid are in ABW's and Molopo's ASX announcements, as follows:

- ABW – 26 October 2017: Bidder's Statement;
- MPO – 28 November 2017: Target's Statement;
- MPO – 19 January 2018: Supplementary Target's Statement;
- MPO – 19 March 2018: Second Supplementary Target's Statement;
- MPO – 28 May 2018: Third Supplementary Target's Statement;

30 Refer ASX Letter to Molopo dated and released on ASX on 11 May 2018: MPO Breaches of ASX Listing Rules

DIRECTORS' REPORT

- ABW - 12 June 2018: Notice of Variation of MPO Bid;
- ABW - 10 August 2018: Molopo Energy – Withdrawal of Takeover Bid; and
- ABW - 13 August 2018: Section 630(3) Notice of Status of Defeating Conditions.

(b) Wilson Asset Management

On 8 November 2017, WAM Capital Limited (ASX:WAM) (**WAM**) announced an intention to make an off-market takeover bid for all of the shares of Molopo at \$0.135 per share.

The proposed WAM bid was subject to a range of 'defeating conditions', which were summarised in WAM's ASX announcement dated 8 November 2017: Proposed Off-Market Takeover Bid for Molopo Energy Limited (ASX:MPO).

On 4 January 2018, WAM announced the withdrawal of their proposed bid on account of Molopo's 11 December 2017 ASX Announcement (Update on Orient FRC Ltd Investment) triggering the 'no material transactions' defeating condition.

Takeovers Panel Proceedings - Molopo Energy Limited 10 & 11 and 12R

On 30 July 2018, the Takeovers Panel published its Final Reasons in the matter of Molopo Energy Limited 10 & 11³¹, a summary of which is as follows:

- The Panel found that Molopo's failure to disclose certain transactions and events in accordance with its disclosure obligations meant that the acquisition of control over voting shares in Molopo has not taken place in an efficient, competitive and informed market. In addition, by virtue of Molopo taking those actions, Aurora's bid may be withdrawn or lapse in circumstances where Molopo shareholders were not offered a choice between those actions and Aurora's bid. The Panel made compensation and costs orders in favour of Aurora.
- The Panel was *"very troubled by the serious disclosure failures of Molopo over an extended period of time and during a takeover period when greater care is required in a target's communications with shareholders"*.
- In the Panel's view, *"there has been a blatant disregard of Molopo's disclosure obligations by the Former Directors"* (being Messrs Baljit Johal, Matthew Cudmore and Richard Matthews who were all removed as Directors at Molopo's AGM held on 31 May 2018¹⁴).
- The Panel identified an extensive list of concerns and questions regarding the conduct of Molopo and its former directors in relation to the Orient and Drawbridge Transactions including:
 - (a) *"the reasons why Molopo's board repeatedly chose not to disclose material transactions and events to Molopo shareholders"*;
 - (b) the then Molopo Board's approval of the Orient Transaction announced in July 2017 and subsequent loan transactions (including the intended purpose and actual use of the loan funds);
 - (c) the limited due diligence undertaken by Molopo on the Orient / Drawbridge Transactions, including counterparty due diligence and Molopo's limited access to information on Drawbridge before and after the Drawbridge Transaction;
 - (d) the decision of the Former Directors not to obtain any independent valuations regarding the Drawbridge Transaction;
 - (e) the reasons why Gil Feiler did not match Molopo's US\$4.5 million loan to Orient and why this outstanding contribution was not factored into the US\$7 million paid to Gil Feiler's special purpose vehicle to buy back his 50% interest in Orient; and
 - (f) *"the reasons why Molopo considered it appropriate to make a total payment of US\$14 million for Orient in circumstances where the total consideration payable by Orient for its co-investment in the Orient Project with Kerogen had only been US\$2 million (of which US\$1 million was payable in two installments [sic] due on 1 July 2017 and 1 September 2017)"*.

31 Refer Takeovers Panel Reasons for Decision in Molopo Energy Limited 10 & 11 [2018] ATP 12

DIRECTORS' REPORT

- The Panel proposes to “make a referral to ASIC to consider potential breaches of directors duties by the Former Directors, as well as other matters, including the genuineness of the transactions”.
- The Panel also identified “concerns regarding Molopo’s requests for withholding information from parties and the redaction of information in documents received under subpoena in this proceeding (before the Directors Replacement) and Molopo Energy Limited 09^[32]” and the Panel proposes to “make a referral to ASIC to investigate whether one or more of the Former Directors breached section 199(1) or 200(1)(a) of the Australian Securities and Investment Commission Act 2001 (Cth) in relation to this proceeding and/or Molopo Energy Limited 09, including whether any written submissions given to the Panel (and ASIC) gave information or evidence that “is false or misleading in a material particular””.

On 20 July 2018, Molopo applied for a review of the Panel’s decision on final orders in Molopo Energy Limited 10 & 11³³ (which Keybridge supports).

By way of background:

- (a) On 8 June 2018, the Panel announced that it had made a declaration of unacceptable circumstances in relation to the affairs of Molopo arising out of, inter alia, the Orient¹⁹ and Drawbridge^{17,18} Transactions including that³⁴:
 - (i) Molopo shareholders have not been given enough information to enable them to assess the merits of AFARF’s takeover bid³⁵ 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 Molopo shareholders a reasonable and equal opportunity to participate in any benefits accruing under the bid.
- (b) On 18 July 2018, the Panel announced its final orders requiring Molopo to pay Aurora compensation in relation to certain of Aurora’s bid costs and Aurora’s costs in relation to the Panel proceedings (totalling \$70,581.66).³⁶

For further details, refer to the following publications released by the Takeovers Panel (available from their website - <https://www.takeovers.gov.au/>):

- 8 June 2018 Media Release TP18/42: Molopo Energy Limited 10 & 11 – Declaration of Unacceptable Circumstances;
- 18 July 2018 Media Release TP18/53: Molopo Energy Limited 10 & 11 – Orders; and
- 30 July 2018 Reasons for Decision in Molopo Energy Limited 10 & 11 [2018] ATP 12.

32 Refer Takeovers Panel Media Release No. TP17/60 dated 8 December 2017: Molopo Energy Limited 09 – Panel Declines to Make Declaration

33 Refer Takeovers Panel Media Releases No. TP18/54 dated 20 July 2018: Molopo Energy Limited 12R – Panel Receives Review Application

34 Refer Takeovers Panel Media Release No. TP18/42 dated 8 June 2018: Molopo Energy Limited 10 & 11 – Declaration of Unacceptable Circumstances

35 Aurora Funds Management Limited (Aurora or 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)) has launched a cash and/or scrip takeover bid for Molopo at \$0.135 per share, which is currently scheduled to close on 20 August 2018. Refer AFARF’s ASX announcements dated 26 October 2017: Bidder’s Statement and 12 June 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, 19 March 2018: Second Supplementary Target’s Statement and 28 May 2018: Third Supplementary Target’s Statement

36 Refer Takeovers Panel Media Release No. TP18/53 dated 18 July 2018: Molopo Energy Limited 10 & 11 – Orders

DIRECTORS' REPORT

Victorian Supreme Court Litigation

On 18 July 2018, in relation to Keybridge's proceeding against Molopo and Messrs Baljit Johal, Richard Matthews and Matthew Cudmore³⁷ (being former Molopo Directors who were all removed as Directors at Molopo's AGM held on 31 May 2018), vis a vis, amongst other matters, oppression of Molopo shareholders and false and misleading conduct, the Court ordered by minutes of consent orders (agreed by all parties to the proceedings) that:

- Molopo replace Keybridge as a Plaintiff to the proceeding³⁸;
- Molopo file and serve an amended originating process and statement of claim against the Defendants (Messrs Johal, Matthews and Cudmore) by 10 August 2018;
- The Defendants file and serve their defences by 7 September 2018; and
- The matter be next considered at a directions hearing on 14 September 2018.

By way of background, on 30 May 2018, Keybridge commenced legal action seeking a number of declarations and orders against Molopo and Messrs Johal, Matthews and Cudmore on the basis of, amongst other matters, oppression by Molopo of its shareholders, false and misleading conduct by Molopo and Messrs Johal, Matthews and Cudmore, and breaches by Molopo of the ASX Listing Rules.³⁷

On 19 July 2018, in relation to Keybridge's proceeding against Molopo³⁹ to seek further information vis a vis the Orient Transaction, the matter was dismissed by minutes of consent orders (agreed with Molopo) with no order as to costs.

On 24 August 2018, in relation to Keybridge's proceeding against Molopo and former Molopo Director, Ronnen Rosengart,⁴⁰ vis a vis, amongst other matters, oppression of Molopo shareholders, the Court ordered that the proceeding be dismissed with the parties' costs reserved to the Trial Judge in the matter of Molopo against Messrs Johal, Matthews and Cudmore³⁸.

By way of background, Keybridge commenced legal action in September 2017 against Molopo in what it believes to be in the interests of all Molopo shareholders seeking, amongst other matters:

- Further information in relation to a number of matters including the Orient Transaction, the financial status and technical capacity of Orient and the conduct of the Molopo Board in the management and administration of Molopo – refer Keybridge ASX announcement dated 11 September 2017: Commencement of Legal Action Against Molopo Energy Limited to Access Information; and
- A number of orders against Molopo and a then Molopo Director (Ronnen Rosengart, who has since resigned) on the basis of oppression by Molopo of its shareholders and breaches by Molopo of the ASX Listing Rules – refer Keybridge ASX announcement dated 15 September 2017: Commencement of Further Legal Proceedings Against MPO and Ronnen Rosengart.

Keybridge's involvement in the Victorian Supreme Court litigation is therefore now at an end.

Keybridge and Molopo have also agreed that in relation to the proceeding^{38,41} where Molopo has replaced Keybridge as Plaintiff, Keybridge's costs (to be agreed by the parties or as determined by a cost assessor) will be paid out of any funds recovered by Molopo from any source.

In this regard, Keybridge notes that:

- \$692,788 of Keybridge's Corporate expenses (totalling \$1,658,826) was attributable to Molopo related matters incurred during the financial year;
- \$616,227 of these expenses were in turn, attributable to legal costs; and
- Approximately \$400k of costs were attributable to the Supreme Court proceeding, which are potentially recoverable from Molopo, as outlined above.

³⁷ Keybridge Capital Limited v. Molopo Energy Limited & Ronnen Rosengart, Supreme Court of Victoria Proceedings S ECI 2018 00120

³⁸ Now known as Molopo Energy Limited v. Baljit Singh Johal, Richard Matthews and Matthew Edward Cudmore, Supreme Court of Victoria Proceedings S ECI 2018 00120

³⁹ Keybridge Capital Limited v. Molopo Energy Limited & Ronnen Rosengart, Supreme Court of Victoria Proceedings SCI 2017 04750

⁴⁰ Keybridge Capital Limited v. Molopo Energy Limited & Ronnen Rosengart, Supreme Court of Victoria Proceedings SCI 2017 04752

DIRECTORS' REPORT

Also on 24 August 2018, in relation to Molopo's proceeding against Messrs Johal, Matthews and Cudmore³⁸ (which was originally initiated by Keybridge³⁷), the Court ordered that:

- Ronnen Rosengart be joined as a Defendant alongside Messrs Johal, Matthews and Cudmore⁴¹; and
- Molopo file and serve an amended originating process and statement of claim against the Defendants by 27 August 2018;
- The Defendants file and serve their defences by 5 October 2018; and
- The matter be next considered at a directions hearing on 12 October 2018.

Takeovers Panel Matter: Molopo Energy Limited 03R, 04R & 05R

(a) Vested Molopo Shares

On 7 July 2017, 3,666,285 shares in MPO were vested in the Commonwealth (on trust for Keybridge) under the declaration and orders of the Panel in the matter of Molopo Energy Limited 03R, 04R & 05R.⁴² 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 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%)⁴³.

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 (i.e. 2.6 cents per share as at 30 June 2018), less an estimate (provisionally 2.5%) in respect of selling costs. This has resulted in a provision for impairment expense of \$0.369 million being recognised in respect of this 3.67 million parcel of MPO shares for the financial year.

(b) Judicial Review

AFML has applied for a judicial review⁴⁴ of the Panel's decision in Molopo Energy Limited 03R, 04R & 05R. Keybridge has entered a submitting appearance in respect of this proceeding such that Keybridge will submit to any order that the Court may make in the proceeding. This matter is scheduled to be heard in the Federal Court of Australia in Sydney on 22 and 23 October 2018.

Investment in Metgasco Limited (ASX:MEL)

Keybridge is the second largest shareholder in Metgasco with 36,437,345 shares held currently (9.32%)⁴⁵ and as at Balance Date (30 June 2017: 23,194,591 shares (5.82%)), which were acquired at an average cost of 3.23 cents per share (adjusted for the 2.5 cents per share (\$0.58 million) return of capital received on 16 November 2016).

41 Now known as Molopo Energy Limited v. Baljit Singh Johal, Richard Matthews, Matthew Edward Cudmore and Ronnen Rosengart, Supreme Court of Victoria Proceedings S ECI 2018 00120

42 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

43 Refer KBC's ASX Announcement 11 July 2017: Change of Substantial Holder Notice for MPO

44 Refer AIB and ABW ASX Announcements dated 11 September 2017: AFARF, ABW and AIB - Takeovers Panel 03R, 04R & 05R and Takeovers Panel Media Release No. TP14/48 dated 15 September 2017: Molopo Energy Limited 03R, 04R & 05R - Application for Judicial Review

45 Refer KBC's ASX Announcement dated 27 August 2018: Change of Substantial Holder Notice for MEL

DIRECTORS' REPORT

Keybridge notes that HHY is also a major shareholder in Metgasco with 42,170,181 shares held currently (10.78%⁴⁶) and as at Balance Date (30 June 2017: 19,085,580 shares and 4.79%).

During the year, MEL shares traded on the ASX within a range of 4 (in July 2017) to 7 (in February 2018) cents with a closing price of 6 cents (and \$23.66 million market capitalisation) as at 30 June 2018 and a current closing price of 5.5 cents (as at 29 August 2018).

The Metgasco investment generated a \$0.529 million unrealised gain for the year.

Based on Metgasco's ASX Announcements including its recent June 2018 Quarterly Activities Report (lodged on ASX on 31 July 2018⁴⁷):

- Metgasco had cash reserves of \$6.778 million as at 30 June 2018,
- Metgasco has issued a convertible note⁴⁸ to Byron Energy Limited (ASX:BYE) secured⁴⁹ over Byron's assets (principally located in the Gulf of Mexico) - the note was originally \$8 million and Byron has repaid \$4 million to date; \$1 million quarterly instalments are due from Byron until the note has been repaid in full in July 2019;
- Metgasco holds 37,897,000 shares (5.77%⁵⁰) in BYE (acquired under a share placement at a cost of 7 cents each) and 10 million options over BYE shares (with an exercise price of 25 cents per share and expiring on 24 June 2019). The BYE share price was 35.5 cents as at 30 June 2018 and 29 cents as at 29 August 2018;
- Metgasco has interests in the following oil and gas projects:
 - (a) A farm-in (10% working) interest in Byron's Bivouac Peak Littoral Louisiana Oil & Gas Project (Gulf of Mexico). MEL has elected to participate in the drilling of Weiss-Adler et al No. 1 well, which commenced drilling on 25 August 2018, at a capped cost of US\$1.333 million.⁵¹
 - (b) A farm-in (30% working) interest in Byron's South Marsh Island Block 74 (Gulf of Mexico), with an initial test well expected to be drilled in November 2018. MEL will fund 40% of the costs in this regard.⁵²
 - (c) Petroleum and gas exploration rights (Authority to Prospect ATP's 2020 and 2021) in the Cooper and Eromanga basins in Queensland.⁵³
 - (d) a farm-in (20% working) interest⁵⁴, alongside joint venture partners, Senex Energy Limited (ASX:SXY) and Copper Energy Limited (ASX:COE), in the Frey-1 Well Area within Petroleum Retention Lease PRL 93 in the South Australian Cooper Basin. The joint venture plugged and abandoned an oil exploration well in September 2017; a MEL has completed its earn-in via meeting its share of the costs - \$684,400.

Keybridge's Chairman, John Patton, was appointed to the Metgasco Board on 19 September 2016.

Information concerning Metgasco may be viewed on its website: www.metgasco.com.au.

46 Reflects purchases made and changes to MEL issued share capital since the HHY's ASX Announcement dated 18 January 2018: Change of Substantial Holder Notice for MEL

47 Refer MEL's June 2018 Quarterly Activities Report and Cashflow Report both dated and released on ASX on 31 July 2018

48 Refer MEL's ASX Announcement dated 23 January 2017: Byron Subscription Notice Received

49 Refer MEL's ASX Announcement dated 22 July 2016: Execution of Convertible Note and General Security Deeds

50 Refer MEL's ASX Announcements dated 14 August 2017: Metgasco Elects to Participate in Byron Energy Equity Issuance and 3 October 2017: Becoming a Substantial Holder for BYE

51 Refer MEL's ASX Announcement dated 27 August 2018: Bivouac Peak First Well: Drilling Operations Commence

52 Refer MEL's ASX Announcement dated 19 July 2018: Metgasco Farms-In to South Marsh Island 74: Initial Test Well to be Drilled in October 2018

53 Refer MEL's ASX Announcement dated 29 May 2018: Grant of Cooper Basin ATP 2021 and ATP 2020 By Queensland Government

54 Refer MEL's ASX Announcements dated 26 September 2017: Metgasco Invests into Frey-1 Cooper Basin Exploration Well and 4 October 2017: Frey-1 Well Plugged and Abandoned

DIRECTORS' REPORT

Investment in Yowie Group Ltd (ASX:YOW)

During the year, Keybridge acquired 7,887,471 shares (3.66%⁵⁵) in YOW at an average cost of 11.05 cents per share.

Keybridge notes that HHY is also a major shareholder in YOW with 26,526,643 shares (12.32%⁵⁶) acquired in January and February 2018.

During the year, YOW shares traded on the ASX within a range of 35.5 (in July 2017) to 6.6 (in May 2018) cents with a closing price of 6.8 cents (and \$14.74 million market capitalisation) as at 30 June 2018 and a current closing price of 9 cents (as at 29 August 2018).

The Yowie investment generated a \$0.354 million unrealised loss for the year.

Yowie Group is a global brand licensing company, specialising in the development of consumer products designed to promote learning, understanding and engagement with the natural world through the adventures and exploits of Yowie characters. Yowie Group employs its intellectual property rights to supply Yowie branded chocolate confectionery product, a digital platform and Yowie branded licensed consumer products. Yowie's vision for the Yowie brand is to distribute on a widening basis the Yowie product in the US, Australia and New Zealand with further international expansion.⁵⁷

On 8 August 2018, AFML as Responsible Entity of HHY requisitioned a general meeting of YOW shareholders to seek the removal of YOW Chairman, Louis Carroll, as a director. This General Meeting will be held on 8 October 2018, which YOW has advised will be held immediately after the close of YOW's 2018 AGM being held on the same day.

For further details, refer to YOW's announcements as follows:

- 6 August 2018: Receipt of Notice of Intention to Move Resolution - Section 249N Notice and Section 203D Notice;
- 10 August 2018: Receipt of Notice Under Section 249D; and
- 29 August 2018: Notice of General Meeting and Proxy Form.

Keybridge Director, William Johnson, was appointed to the Yowie Board on 10 April 2018⁵⁸.

Information concerning Yowie Group may be viewed on its website: www.yowiegroup.com.

Yowie Group's market announcements may also be viewed from the ASX website (www.asx.com.au) under ASX code "YOW".

Loan Receivables – Infrastructure

On 30 April 2018⁵⁹, Keybridge announced the sale of the Totana Solar Plant assets in Spain 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.⁶⁰

The initial A\$8 million proceeds of sale have been repatriated to Keybridge (in Australia) as part of the repayment of various loans owed to Keybridge (with a carrying value of A\$6.353 million as at 31 March 2018⁶¹) by the corporate entities (originally set up by Keybridge for this purpose) which held the Totana Solar Plant assets. As a consequence, no tax is payable on the sale proceeds.

55 Refer KBC's ASX Announcement dated 19 February 2018: Change of Substantial Holder Notice for YOW

56 Refer HHY ASX Announcements dated 8 August 2018: Change of Substantial Holder Notice for YOW and 19 February 2018: Change of Substantial Holder Notice for YOW

57 Refer YOW's 2018 Annual Report released on ASX on 27 August 2018

58 Refer YOW's ASX Announcement dated 10 April 2018: Appointment of Non-Executive Director

59 Refer KBC's ASX announcement dated 30 April 2018: Sale of Totana Plant Assets

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

61 Refer KBC's ASX Announcement dated 13 April 2018: Net Asset Backing – March 2018

DIRECTORS' REPORT

Keybridge generated an overall net gain of \$1.737 million from 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.

During the year (to completion of the Totana sale on 27 April 2018), Keybridge also received €0.675 million (~A\$1.034 million) in cash loan repayments.

Contemporaneously with the completion of the sale of Totana and the repayment of the loans, the Company has also consolidated the corporate ownership structure (referred to above). 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 transaction, GCF has agreed to exit its position and BIC Europe is now a wholly owned subsidiary of Keybridge.

By way of background:

- In 2007/2008, Keybridge financed the development and construction of the Totana ~1.05MWp Solar Photovoltaic Park in the Murcia region in southern Spain.
- The development was part of a plan by Keybridge to develop a portfolio of European energy infrastructure assets, taking advantage of the attractive (at that time) regulatory environment in Spain for such assets. However, soon after the Totana Solar Plant was completed, the Spanish Government changed the regulation applicable to solar plants and because of this, that plan was no longer regarded as feasible and no further energy infrastructure investments were made by Keybridge in Europe.
- Whilst the Totana Solar Plant had consistently generated positive cashflows for Keybridge since it was commissioned, the Keybridge Board decided in 2017 that maintaining a single, relatively small solar plant in Europe was not a strategic investment for the Company and so determined to sell the plant. Several interested parties were identified and invited to participate in a competitive bidding process, which was ultimately secured by Eliantus Energy.
- The Totana Solar Plant assets are held in Spanish corporate entities (**SPVs**), which are, in turn, owned by BIC Europe.
- BIC Europe was regarded as a jointly controlled entity owned 50:50 by Keybridge's Australian subsidiary, BIC Infrastructure Capital Pty Limited (**BIC Australia**), and GCF. BIC Europe had been accounted for by Keybridge under the equity method but the investment had been previously impaired to a nil carrying value.
- Historically, finance was provided by Keybridge to BIC Australia to BIC Europe to the SPVs via a series of loans to fund the development of the project.
- On 23 April 2018, BIC Europe (the **Seller**) entered into a Share Purchase and Assignment of Intragroup Loans Agreement (**SPA**) with Eliantus Energy PV II, S.L (**Buyer**) and Eliantus Energy, S.L (**Guarantor**) pursuant to which, inter alia:
 - (a) The Seller transferred 100% of its shareholding in the SPVs to the Buyer;
 - (b) The Seller assigned 100% of the loan agreements with the SPVs to the Buyer (**Intragroup Loans**);
 - (c) The Buyer paid the Seller a Purchase Price of €5.2m with €27,054 allocated towards the price in respect of the shares in the SPVs and the balance of €5,172,946 allocated towards the principal and accrued interest due under the Intragroup Loans;
 - (d) The Buyer paid the Seller €5m upon execution of the SPA – these funds have been repatriated to Keybridge as repayment/discharge of the loans owed by BIC Europe to BIC Australia/Keybridge;
 - (e) A **Deferred Payment** of €200k is payable by the Buyer 18 months after the execution date – this has been recognised by Keybridge as a consideration receivable asset; and
 - (f) Security for the Deferred Payment is a Guarantee provided by the Guarantor, which is the parent company of the Buyer.

DIRECTORS' REPORT

Loan Receivables and Equity – Insurance

In September 2014, Keybridge invested NZ\$3.8 million (A\$3.4 million) (via NZ\$0.109 million (10.13%) equity and NZ\$3.691 million notes) into Foundation Life to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand.

Interest of 9% pa is payable under the note, which is redeemable by noteholders in 50 years (May 2064) (which was amended from 10 years (May 2024) in September 2017 at the request of Foundation) or by Foundation (from time to time).

Keybridge received a NZ\$0.109 million equity (A\$0.105 million) return of capital distribution in March 2015, which (for accounting purposes) reduced the carrying value of this 10.13% equity component to nil. With effect as at the previous (30 June 2017) balance date, the Directors have revalued this equity investment at cost of NZ\$0.109 million equity (A\$0.103 million), which is supported by the underlying value of Foundation Life.

During the year, Keybridge earned NZ\$0.306 million (A\$0.282 million) interest income and received cash distributions of NZ\$0.301 million (A\$0.277 million) from Foundation.

As at 30 June 2018, the loan balance was NZ\$3.418m (A\$3.135m) (30 June 2017: NZ\$3.412 million and A\$3.250 million) and Keybridge retains its 10.13% equity interest in Foundation Life valued at A\$0.103 million.

Loan Receivables - Private Equity

Keybridge holds a US\$4.3 million 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**).

By way of background, the Note arose out of a restructure in April 2013 where, as part of arrangements to exit legacy aviation investments⁶², Keybridge restructured its participation in a US closed-end private equity fund which was managed by RPC, which also managed the aviation investment.⁶³

Under the April 2013 restructure:

- Keybridge received US\$29.7 million cash from the sale of the Company's remaining aircraft investments; and
- Keybridge sold its private equity asset to RPC for US\$4.3 million fully funded by a Keybridge loan with recourse only to the asset sold (ie. the Note) - no cash was derived from this transaction.

Keybridge notes that none of the current Board members were involved in the above RPC related restructure.

The principal and accrued interest (at 14.5% pa) under the Note was repayable on maturity on 29 December 2017 (which is capable of extension/re-finance by mutual agreement of the parties).

On 24 August 2017, Keybridge received notice from an RPC Executive (**Republic**) advising that it was 'highly unlikely that the Note would 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, with this value maintained at (30 June 2018) Balance Date and currently. This impairment was advised in KBC's ASX announcement dated 25 August 2017: Update – Private Equity Loan Receivable.

⁶² Made whilst Keybridge was known as Mariner Bridge Investments Limited in 2006/2007 - refer 2007 Annual Report released on 24 October 2007

⁶³ 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

DIRECTORS' REPORT

Since August 2017, Keybridge has also received alternative proposals from Republic to settle the Note liability. As at the date of this report, 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).

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 the loans, which are owed by private companies (which are in liquidation).

As at 30 June 2018, the loan was carried at Directors' valuation (net of impairments) of \$0.885 million (30 June 2017: \$0.885 million) – this was based on an independent valuation received in respect of the lots in May 2016.

The liquidator's costs are being funded from income generated from the Conference Facilities.

Other Loans and Receivables

Keybridge has a number of legacy loan receivables due from various Australian and overseas entities (some of which are in liquidation or another form administration). These loans have previously been impaired to nil and are not generally reflected in the Loans and Receivables table (above) or in Note 9 (Loans and Receivables) of the accompanying financial statements.

As such, Keybridge has not historically commented on these Loans and Receivables unless there has been a material development such as the receipt of a material distribution/repayment or a settlement of a dispute with relevant parties.

Keybridge continues to manage and monitor these Loans and Receivables as potential 'assets' in this regard.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of Keybridge that occurred during the financial year not otherwise disclosed in this Directors' Report or the financial statements.

FUTURE DEVELOPMENTS

Keybridge intends to continue its investment activities in future years. The results of these investment activities depend upon the performance of the underlying investee entities/loan counterparties and securities in which Keybridge invests. The investments' performances depend on many economic factors and also industry and investee/counterparty-specific issues. In the opinion of the Directors, it is not possible or appropriate to make a prediction on the future course of markets, the performance of Keybridge's investments or forecast the likely results of Keybridge's activities.

ENVIRONMENTAL REGULATION

Keybridge is not subject to any particular or significant environmental regulation under Australian Commonwealth or State legislation.

DIRECTORS' REPORT

DIRECTORS

JOHN D. PATTON	
	Chairman
<i>Appointed</i>	10 August 2016; Chairman since 13 October 2016; re-elected at AGM on 23 November 2016
<i>Qualifications</i>	B.Ec (Monash), CA (ICAA), F Fin
<i>Experience</i>	John Patton is a senior executive with extensive finance experience in the corporate and professional services sectors. Mr Patton was previously a Partner with Ernst & Young in the Transactions Advisory Services division. With over 25 years of professional services and industry experience, Mr Patton has extensive corporate finance credentials, having been involved in over 150 corporate transactions, including mergers & acquisitions (lead advisory), structuring, debt and equity raisings, IPO's, management buy-outs, valuations (including Independent Expert Reports), due diligence, financial modelling, restructuring and corporate advisory. In addition, Mr Patton held the positions of CFO, acting CEO and alternate director of the Epic Energy group, a major infrastructure owner of high-pressure gas transmission pipelines in Australia. This business was the core asset within the ASX-listed Hastings Diversified Utilities Fund. As a result, Mr Patton has solid hands-on operational experience with, and a strong appreciation of, the regulatory, commercial, financial, capital structure and external stakeholder management issues and requirements associated with major assets within an ASX-listed environment in Australia.
<i>Relevant interest in securities</i>	150,000 – KBC shares ⁶⁴ 4,166 – KBCPA Convertible Redeemable Preference Notes
<i>Special Responsibilities</i>	Member of Investment Committee Member of Audit, Finance and Risk Committee
<i>Other current directorships in listed entities</i>	(1) Non-Executive Director of Metgasco Limited (ASX:MEL) (appointed 19 September 2016). (2) Managing Director of Aurora Funds Management Limited, a Responsible Entity of HHY Fund (ASX:HHY), Aurora Global Income Trust (ASX:AIB), Aurora Absolute Return Fund (ASX:ABW), Aurora Property Buy-Write Income Trust (ASX:AUP), Aurora Dividend Income Trust (ASX:AOD)
<i>Former directorships in other listed entities in past 3 years</i>	None
WILLIAM M. JOHNSON	
	Non-Executive Director
<i>Appointed</i>	29 July 2016 (elected by shareholders at a general meeting)
<i>Qualifications</i>	MA (Oxon), MBA, MAICD
<i>Experience</i>	William Johnson holds a Masters degree in engineering science from Oxford University, England and an MBA from Victoria University, New Zealand. His 30-year business career spans multiple industries and countries, with executive/CEO experience in mineral exploration and investment (Australia, Peru, Chile, Saudi Arabia, Oman, North Africa and Indonesia), telecommunications infrastructure investment (New Zealand, India, Thailand and Malaysia) and information technology and Internet ventures (New Zealand, Philippines and Australia). Mr Johnson is a highly-experienced public company director and has considerable depth of experience in corporate governance, business strategy and operations, investment analysis, finance and execution.
<i>Relevant interest in securities</i>	None
<i>Special Responsibilities</i>	Member of Investment Committee Member of Remuneration and Nomination Committee
<i>Other current directorships in listed entities</i>	(1) Managing Director of Strike Resources Limited (ASX:SRK) (since 25 March 2013; Director since 14 July 2006). (2) Executive Director of Bentley Capital Limited (ASX:BEL) (since 1 January 2016; Director since 13 March 2009). (3) Non-Executive Director of Yowie Group Ltd (ASX:YOW) (appointed 10 April 2018). (4) Non-Executive Director of Molopo Energy Limited (ASX:MPO) (elected 31 May 2018).
<i>Former directorships in other listed entities in past 3 years</i>	None

⁶⁴ Refer John Patton's Initial Director's Interest Notice dated 10 August 2016

DIRECTORS' REPORT

SIMON K. CATO	Non-Executive Director
<i>Appointed</i>	29 July 2016; re-elected at AGM on 23 November 2017
<i>Qualifications</i>	B.A. (Sydney)
<i>Experience</i>	Simon Cato has had over 30 years' capital markets experience in broking, regulatory roles (with ASX in Sydney and Perth) and as a director of listed companies. From 1991 until 2006, he was an executive director and/or responsible executive of three stockbroking firms. During that time, Mr Cato was involved in the formation of a number of companies, including writing prospectuses and managing the listing process and has been through the process of IPO listing in the dual role of broker and director. Since 2006, Mr Cato has been an executive and non-executive director of a number of public listed companies with a range of different business activities and was a founding director of Greenland Minerals and Energy Limited.
<i>Relevant interest in securities</i>	None
<i>Special Responsibilities</i>	Chairman of Audit, Finance and Risk Committee Member of Remuneration and Nomination Committee
<i>Other current directorships in listed entities</i>	(1) Non-Executive Chairman of Advanced Share Registry Limited (ASX:ASW) (since 22 August 2007). (2) Non-Executive Director of Greenland Minerals and Energy Limited (ASX:GGG) (since 21 February 2006). (3) Non-Executive Director of Bentley Capital Limited (ASX:BEL) (since 7 January 2015; also February 2004 to April 2010).
<i>Former directorships in other listed entities in past 3 years</i>	None

JEREMY M. KRIEVALDT	Non-Executive Director
<i>Appointed</i>	13 October 2016; re-elected at AGM on 23 November 2016
<i>Qualifications</i>	BA (Hons), LLM (Hons) (Sydney)
<i>Experience</i>	Jeremy Kriewaldt is a lawyer in private practice, specialising in corporate and commercial law, including mergers and acquisitions, capital raisings and foreign investment, financial product development and securities markets. He started his own practice in 2018 and was previously a partner of Atanaskovic Hartnell (2004 - 2018), Blake Dawson Waldron (now Ashurst) (1990 - 2003) and also served as Counsel to the Takeovers Panel in 2003 - 2004.
<i>Relevant interest in securities</i>	5,000 - KBC shares ⁶⁵ 1,138 - KBCPA Convertible Redeemable Preference Notes
<i>Special Responsibilities</i>	Chairman of Remuneration and Nomination Committee Member of Audit, Finance and Risk Committee
<i>Other current directorships in listed entities</i>	None
<i>Former directorships in other listed entities in past 3 years</i>	None

At the Company's 2017 Annual General Meeting (**AGM**), Simon Cato retired as a Director pursuant to the Company's Constitution and was re-elected a Director.⁶⁶

⁶⁵ Refer Jeremy Kriewaldt's Initial Director's Interest Notice dated 13 October 2016

⁶⁶ Refer KBC's Notice of AGM released on ASX on 24 October 2017 and ASX announcement dated 23 November 2017: Results of 2017 Annual General Meeting

DIRECTORS' REPORT

COMPANY SECRETARY

VICTOR P. H. HO	Company Secretary
<i>Appointed</i>	13 October 2016
<i>Qualifications</i>	BCom, LLB (<i>Western Australia</i>), CTA
<i>Experience</i>	Victor Ho has been in Executive roles with a number of ASX-listed companies across the investments, resources and technology sectors over the past 18+ years. Mr Ho is a Chartered Tax Adviser (CTA) and previously had 9 years' experience in the taxation profession with the Australian Tax Office (ATO) and in a specialist tax law firm. Mr Ho has been actively involved in the investment management of listed investment companies (as an Executive Director and/or a member of the Investment Committee), the structuring and execution of a number of corporate, M&A and international joint venture (in South America, Indonesia and the Middle East) transactions, capital raisings and capital management initiatives and has extensive experience in public company administration, corporations' law and stock exchange compliance and investor/shareholder relations.
<i>Relevant interest in securities</i>	None
<i>Other current positions in listed entities</i>	Executive Director and Company Secretary of: (1) Orion Equities Limited (ASX:OEQ) (Secretary since 2 August 2000 and Director since 4 July 2003). (2) Queste Communications Ltd (ASX:QUE) (Secretary since 30 August 2000 and Director since 3 April 2013). (3) Strike Resources Limited (ASX:SRK) (Director since 24 January 2014 and Company Secretary since 1 October 2015). Company Secretary of Bentley Capital Limited (ASX:BEL) (since 5 February 2004).
<i>Former position in other listed entities in past 3 years</i>	Company Secretary of Alara Resources Limited (ASX:AUQ) (4 April 2007 to 31 August 2015).

DIRECTORS' MEETINGS

The following table sets out the numbers of meetings of the Company's Directors held during the year (excluding Directors' circulatory resolutions) and the numbers of meetings attended by each Director of the Company:

Name of Director	Board		Audit, Risk and Finance Committee		Remuneration and Nomination Committee	
	Attended	Max. Possible Meetings	Attended	Max. Possible Meetings	Attended	Max. Possible Meetings
John Patton	16	16 ^(a)	2	2	-	-
William Johnson	14	14 ^(b)	-	-	-	-
Simon Cato	17	17	2	2	-	-
Jeremy Kriewaldt	16	17	2	2	-	-

Notes:

- (a) John Patton did not attend one Board meeting during the year due to a matter of conflict/exclusion
 (b) William Johnson did not attend 3 Board meetings during the year due to a matter of conflict/exclusion

Audit, Risk and Finance Committee (ARFC)

The composition of the ARFC is Simon Cato (as Chairman), Jeremy Kriewaldt and John Patton. The ARFC has a formal charter to prescribe its objectives, responsibilities (in the areas of external financial reporting, risk management and control, external audit, code of conduct, insurances, complaints handling and related party transactions), composition, access and other administrative matters. A copy of the ARFC Charter may be downloaded from the Company's website: http://keybridge.com.au/corporate_governance.php

Remuneration and Nomination Committee (RNC)

The composition of the RNC is Jeremy Kriewaldt (as Chairman), Simon Cato and William Johnson. A copy of the RNC Charter may also be downloaded from the Company's website.

REMUNERATION REPORT

This Remuneration Report details the nature and amount of remuneration for each Director and Company Executive (being a company secretary or senior manager) (**Key Management Personnel** or **KMP**) of the Company.

The information provided under headings (1) to (8) below has been audited for compliance with section 300A of the *Corporations Act 2001 (Cth)* as required under section 308(3C).

(1) Key Management Personnel (KMP)

Name	Position	Tenure
John Patton	Chairman and Company Executive	Appointed Director on 10 August 2016; appointed Chairman on 13 October 2016; re-elected at AGM on 23 November 2016
William Johnson	Non-Executive Director	Elected at general meeting on 29 July 2016
Simon Cato	Non-Executive Director	Elected at general meeting on 29 July 2016; re-elected at AGM on 23 November 2017
Jeremy Kriewaldt	Non-Executive Director	Appointed 13 October 2016; re-elected at AGM on 23 November 2016
Victor Ho	Company Secretary	Appointed 13 October 2016

(2) Remuneration Policy

The Board (with guidance from the Remuneration and Nomination Committee) determines the remuneration structure of all Key Management Personnel having regard to Keybridge's strategic objectives, scale and scope of operations and other relevant factors, including experience and qualifications, length of service, market practice (including available data concerning remuneration paid by other listed companies and in particular, companies of comparable size and nature), the frequency of Board meetings, the duties and accountability of Key Management Personnel and the objective of maintaining a balanced Board which has appropriate expertise and experience, at a reasonable cost to the Company.

The Remuneration and Nomination Committee (RNC): The RNC has a formal charter to prescribe its objectives, the Company's remuneration and nomination policies and practices, responsibilities (in the areas of executive, senior management and non-executive director remuneration, recruitment and termination, policy and procedure for appointing new directors, performance and education of directors), composition, access and other administrative matters. The objectives of the RNC include assisting the Board to adopt and implement a remuneration system that has coherent remuneration policies and practices to attract and retain executives and directors who will preserve value for shareholders and that fairly and responsibly rewards executives having regard to the performance of Keybridge, the performance of the executives and the general pay environment. The RNC's key responsibilities in relation to remuneration include:

- reviewing, approving and recommending to the board for adoption executive remuneration and incentive policies and practices;
- annually considering, approving and recommending to the board each executive director's total remuneration (including base pay, incentive awards, equity awards, retirement rights and terms of engagement) having regard to executive remuneration and incentive policies
- reviewing and approving, on the recommendation of the managing director, the total remuneration (including incentive awards, equity awards, retirement and termination rights), terms of engagement and changes to the total remuneration and terms of employment of direct reports to the managing director and other senior executives;
- recommending to the board for approval changes to the remuneration or terms of engagement of executive directors before implementation;
- reviewing, approving and recommending to the board for adoption the design of any executive incentive/equity-based plans, the total proposed payments from any executive incentive/equity based plans, the proposed award to each executive under the rules of any plan and the performance hurdles for any equity based plan;

REMUNERATION REPORT

- reviewing the remuneration of non-executive directors for serving on the board or any committee (both individually and in total) and recommending to the board the remuneration and retirement policies for non-executive directors having regard to market trends and shareholder interests;
- annually reviewing the performance of the managing director and executive directors; and
- establishing processes for evaluating (and annually evaluating) the performance of the board, both collectively and individually.

A copy of the RNC Charter may also be downloaded from the Company's website:
http://keybridge.com.au/corporate_governance.php

Corporate Governance Principles: The Company's Corporate Governance Statement (**CGS**) also addresses matters pertaining to the Board, Senior Management and Remuneration. The latest version of the CGS may be downloaded from the Company's website:
http://keybridge.com.au/corporate_governance.php

Fixed Cash Short-term Employment Benefits: The Key Management Personnel of the Company are paid a fixed amount per annum plus applicable employer superannuation contributions. The Non-Executive Directors of the Company are paid a maximum aggregate base remuneration of \$525,000⁶⁷ per annum inclusive of employer superannuation contributions where applicable, to be divided as the Board determines appropriate.

The Board has determined the following fixed cash remuneration for current Key Management Personnel during the year as follows:

Executive Director

- (1) Mr John Patton (Chairman and Company Executive) – a base salary of \$175,000 per annum plus employer superannuation contributions; and

Non-Executive Directors

- (2) Mr Simon Cato - a base fee of \$60,000 per annum plus employer superannuation contributions;
- (3) Mr William Johnson - a base fee of \$60,000 per annum plus employer superannuation contributions.
- (4) Mr Jeremy Kriewaldt - a base fee of \$60,000 per annum plus employer superannuation contributions.

Company Executive/Senior Manager

- (5) Mr Victor Ho (Company Secretary) - a base fee of \$150,000 per annum (excluding GST).

Special Exertions and Reimbursements: Pursuant to the Company's Constitution, each Director is also entitled to receive:

- (a) Payment for reimbursement of all travelling and other expenses incurred by a Director in attending to the Company's affairs, including attending to meetings of the Company and the Board or Committees; and
- (b) Payment for the performance of extra services or the making of special exertions for the benefit of the Company (with the concurrence of the Board).

Short-Term Benefits: The Company does not have any short-term incentive (**STI**) cash bonus schemes (or equivalent) in place for Key Management Personnel.

Long-Term Benefits: The Company does not have any long-term incentive (**LTI**) cash bonus schemes (or equivalent) in place for Key Management Personnel.

Equity-Based Benefits: Save for the Executive Share Plan (**ESP**) outlined below, the Company does not presently have any equity (shares or options) based remuneration arrangements for Key Management Personnel pursuant to any executive or employee share or option plan or otherwise.

⁶⁷ As approved by shareholders at the Annual General Meeting held on 28 November 2007; refer KBC's ASX announcement dated 24 October 2007: Notice of Annual General Meeting and KBC's ASX announcement dated 28 November 2007: Results of Annual General Meeting

REMUNERATION REPORT

Post-Employment Benefits: The Company does not presently provide retirement benefits to Key Management Personnel. Other than early termination benefits disclosed in 'Employment Agreement' below, Key Management Personnel also have no right to termination payments save for payment of accrued unused annual and long service leave (where applicable) (these accrued employee entitlements are not applicable in respect of Non-Executive Directors). The Company notes that shareholder approval is required where a Company proposes to make a "termination payment" (for example, a payment in lieu of notice, a payment for a post-employment restraint and payments made as a result of the automatic or accelerated vesting of share based payments) in excess of one year's "base salary" (defined as the average base salary over the previous 3 years) to a director or any person who holds a managerial or executive office.

Performance-Related Benefits and Financial Performance of Company: The current remuneration of Key Management Personnel is fixed, is not dependent on the satisfaction of a performance condition and is unrelated to the Company's performance.

In considering the Company's performance and its effects on shareholder wealth, Directors have had regard to the data set out below for the latest financial year and the previous four financial years:

	2018	2017	2016	2015	2014
Profit/(Loss) Before Income Tax (\$'000)	(6.805)	(6,446)	2,779	1,140	(2,791)
Profit/(Loss) After Income Tax (\$'000)	(6.805)	(6,446)	(2,491)	968	(2,942)
Basic Earnings/(Loss) per share (cents)	(4.30)	(4.06)	(1.42)	0.61	(1.74)
Total Dividends Paid (\$'000)	790	-	795	434	-
Dividends Paid (cent per share)	0.5	-	0.5	0.25	-
Total Capital Returns Paid (\$'000)	-	-	-	4,426	-
Capital Returns Paid (cents per share)	-	-	-	2.78	-
VWAP Share Price on ASX for financial year (\$)	0.089	0.14	0.174	0.184	0.175
Closing (Last Bid) Share Price on ASX as at 30 June (\$)	0.079	0.10	0.155	0.175	0.18

(3) Details of Remuneration of Key Management Personnel

Details of the nature and amount of each element of remuneration of each Key Management Personnel paid or payable by the Company during the financial year are as follows:

2018		Short-term Benefits		Post-Employment Benefits	Other Long-term Benefits	Equity-Based	Total
Key Management Personnel	Performance-related %	Cash salary and fees	Non-cash benefit	Superannuation	Long service leave	Shares & options	
		\$	\$	\$	\$	\$	
Directors:							
John Patton	-	174,999	-	16,625	-	-	191,624
William Johnson	-	60,000	-	5,700	-	-	65,700
Simon Cato	-	60,000	-	5,700	-	-	65,700
Jeremy Kriewaldt	-	60,000	-	5,700	-	-	65,700
Company Secretary:							
Victor Ho	-	150,000	-	-	-	-	150,000

2017		Short-term Benefits		Post-Employment Benefits	Other Long-term Benefits	Equity-Based	Total
Key Management Personnel ^(a)	Performance-related %	Cash salary and fees	Non-cash benefit	Superannuation	Long service leave	Shares & options	
		\$	\$	\$	\$	\$	
Directors:							
John Patton	-	136,105	-	12,930	-	-	149,035
William Johnson	-	55,425	-	5,265	-	-	60,690
Simon Cato	-	55,425	-	5,265	-	-	60,690
Jeremy Kriewaldt	-	43,123	-	4,097	-	-	47,220
Antony Sormann ^(b)	-	203,490 ^(c)	-	9,808	-	14,269	227,567
William (Bill) Brown ^(d)	-	22,192	-	2,108	-	-	24,300
Andrew Moffat ^(e)	-	29,414	-	-	-	-	29,414
Company Secretary:							
Victor Ho	-	107,661	-	-	-	-	107,661
Ian Pamensky ^(f)	-	136,480	-	-	-	-	136,480

REMUNERATION REPORT

Notes to 2018 and 2017 tables:

- (a) Refer (1) above for the dates of appointment/election of each of the current KMP
- (b) Resigned 13 October 2016; appointed acting Managing Director 18 December 2015; appointed Director 6 March 2014
- (c) Includes leave entitlements and termination benefits (totalling \$106,375)
- (d) Resigned 10 August 2016; appointed Chairman on 29 July 2016; appointed Director on 9 October 2012
- (e) Removed at general meeting on 29 July 2016; appointed Director on 7 March 2014
- (f) Resigned 16 December 2016; commenced on 8 February 2016; appointed Company Secretary and CFO on 29 February 2016

(4) Executive Share Plan (ESP)

The Company has an ESP which was approved by shareholders at the 2014 Annual General Meeting (AGM) held on 28 November 2014⁶⁸. The ESP was developed to serve as the Company's principal vehicle to grant long term incentive awards and form a key element of the Company's total remuneration strategy for directors and selected senior management.

The primary objectives of the ESP are to:

- (a) assist with the attraction, motivation and retention of directors and senior management and more closely align the interest of directors and senior management with shareholders by matching rewards with the long-term performance of the Company, and accordingly drive the Company's improved performance;
- (b) align the incentives provided to participants with current market practice; and
- (c) provide the Company with flexibility to accommodate changes in the Company's circumstances and shifts in regulatory and market practice from time to time.

The ESP involves the Company providing interest-bearing limited-recourse loans to eligible participants to purchase ordinary shares in the capital of the Company. As part of the loan arrangements, the Company will take security over those ordinary shares to secure repayment of the loans. Interest will be charged on the loans at a fixed rate of 6.45% per annum for the term of the loans, capitalised monthly. The term of the loans will be 3 years and 3 months. The interest will be recourse to the participant. The loans may be repaid early in certain circumstances, however participants in the ESP remain liable for the entire amount of interest applicable over the loan term.

Further details about the ESP are set out in the Company's Notice of AGM and Explanatory Statement dated 29 October 2014.

The Company has issued shares to and entered into loan arrangements with previous Key Management Personnel pursuant to the ESP. Further details are set out in:

- Keybridge's ASX Announcement dated 19 December 2014: Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares);
- Keybridge's ASX Announcement dated 28 April 2015: Appendix 3B; and
- Note 14 (Share-Based Payments) in the accompanying financial statements.

The Company has not issued shares to and entered into loan arrangements with Key Management Personnel pursuant to the ESP during the financial year.

No Key Management Personnel are involved in the ESP vis a vis holding or being issued ESP shares.

⁶⁸ 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

REMUNERATION REPORT

(5) Formal Terms of Employment/Engagement

Details of the material terms of formal agreements entered by the Company with Key Management Personnel are as follows:

KMP and Position(s) Held	Relevant Date(s)	Base Salary/Fees per annum	Other Terms
John Patton (Company Executive)	22 December 2016 (date of employment agreement) 13 October 2016 (date of commencement)	\$175,000 base salary per annum plus employer superannuation contributions (currently 9.5% of base salary) plus additional wages (at an agreed day or hourly rate) in respect of approved/agreed excess hours	- The agreement has no fixed term or fixed rolling terms of service. - Commitment to a minimum 16 hours per week over the course of a 5-day working week (averaged out over the course of a month) plus reasonable additional time required by the Company in order to satisfy Company business or operational requirements. - Standard annual leave (20 days) and personal/sick leave (10 days paid) entitlements. - Three months' notice of termination by the Company and one month's notice of termination by the Company Executive. Immediate termination without notice if Company Executive commits any serious act of misconduct. - Not prohibited from also concurrently acting as a director of any company or providing similar services to any company, save that Board consent will be required if the Company Executive proposes to take up a position of employment or consultancy with Industry competitors of Keybridge.
Victor Ho (Company Secretary)	13 October 2016 (date of consultancy agreement and date of commencement)	\$150,000 base retainer fees per annum (excluding GST) plus additional fees (at an agreed day or hourly rate) in respect of approved/agreed excess hours	- The agreement has no fixed term or fixed rolling terms of service. - Commitment to a minimum 16 hours per week over the course of a 5-day working week (averaged out over the course of a month) plus reasonable additional time required by the Company in order to satisfy Company business or operational requirements. - One month's notice of termination by the Company and one month's notice of termination by the Company Executive. Immediate termination without notice if consultant commits any serious act of misconduct. - May be entitled to performance related short and long-term incentive scheme benefits (including cash bonuses) as agreed with the Company from time to time – as at the date of this report, no such scheme has been established. - Not prohibited from also concurrently acting as a director or company secretary of any company or providing similar services to any company, save that Board consent will be required if the Company Executive proposes to take up a position of employment or consultancy with Industry competitors of Keybridge.

The Company does not presently have formal agreements with other Key Management Personnel.

REMUNERATION REPORT

(6) Other Benefits Provided to Key Management Personnel

Save as outlined below, no Key Management Personnel has during or since the end of the financial year, received or become entitled to receive a benefit, other than a remuneration benefit as disclosed above, by reason of a contract made by the Company or a related entity with the Director or with a firm of which he is a member, or with a Company in which he has a substantial interest:

- During the financial year, Keybridge incurred legal expenses totalling \$23,863 (2017: \$60,147) (excluding GST) with Atanaskovic Hartnell Lawyers (**AH**). Non-Executive Director, Jeremy Kriewaldt (appointed 13 October 2016), was a Partner at AH until 5 June 2018. Mr Kriewaldt did not provide any legal services to Keybridge in this regard during the financial year. AH fees are charged by AH and paid by Keybridge on an arm's length commercial basis and Mr Kriewaldt was not involved in Keybridge's decisions concerning engagement of legal services provided by AH.
- On 23 November 2016, the Company entered into an agreement with Aurora Funds Management Limited (**AFML**) for an AFML employee (who was also appointed an Executive Director of AFML on 12 January 2018) to provide portfolio management services to the Company in respect of the Company's management of the investment portfolio of the HHY Fund (ASX: HHY) (pursuant to an Investment Management Agreement (**IMA**) (dated 30 June 2016) with AFML (as Responsible Entity/Trustee) for the Company to manage the investment portfolio of the HHY Fund). The Company's Chairman, John Patton (appointed a Director on 10 August 2016 and Chairman and Company Executive on 13 October 2016) is also the Managing Director and a beneficial owner of AFML. During the financial year, fees of \$18,000 (2017: \$12,000) (excluding GST) have been incurred by the Company in this regard. The arrangement was negotiated and agreement reached on an arm's length commercial basis.

(7) Engagement of Remuneration Consultants

The Company has not engaged any remuneration consultants to provide remuneration recommendations in relation to Key Management Personnel during the year. The Board has established a policy for engaging external Key Management Personnel remuneration consultants which includes, inter alia, that the Non-Executive Directors on the RNC be responsible for approving all engagements of and executing contracts to engage remuneration consultants and for receiving remuneration recommendations from remuneration consultants regarding Key Management Personnel. Furthermore, the Company has a policy that remuneration advice provided by remuneration consultants be quarantined from Management where applicable.

(8) Securities in the Company Held by Key Management Personnel

The number of listed ordinary shares (ASX:KBC) in the Company held by Key Management Personnel is set below:

Key Management Personnel	Balance at commencement/ 30 June 2017	Additions	Received as part of remuneration	Disposals	Balance at cessation/ 30 June 2018
Directors:					
John Patton	150,000 ^(a)	-	-	-	150,000
William Johnson	-	-	-	-	-
Simon Cato	-	-	-	-	-
Jeremy Kriewaldt	5,000 ^(b)	-	-	-	5,000
Company Secretary:					
Victor Ho	-	-	-	-	-

REMUNERATION REPORT

The number of Convertible Redeemable Promissory Notes (ASX:KBCPA) in the Company held by Key Management Personnel is set below:

Key Management Personnel	Balance at commencement/ 30 June 2017	Additions	Received as part of remuneration	Disposals	Balance at cessation/ 30 June 2018
Directors:					
John Patton	4,166 ^(a)	-	-	-	4,166
William Johnson	-	-	-	-	-
Simon Cato	-	-	-	-	-
Jeremy Kriewaldt	1,138 ^(b)	-	-	-	1,138
Company Secretary:					
Victor Ho	-	-	-	-	-

Notes to tables:

- (a) Refer John Patton's Initial Director's Interest Notice dated 10 August 2016.
- (b) Refer Jeremy Kriewaldt's Initial Director's Interest Notice dated 13 October 2016
- (c) The disclosures of security holdings above are in accordance with the accounting standards which require disclosure of shares held directly, indirectly or beneficially by each Key Management person, a close member of the family of that person, or an entity over which either of these persons have, directly or indirectly, control, joint control or significant influence (as defined under Accounting Standard AASB 124 Related Party Disclosures).

(9) Voting and Comments on the Remuneration Report at the 2017 AGM

At the Company's most recent (2017) AGM, a resolution to adopt the prior year (2017) Remuneration Report was put to a vote on a poll and was carried by a majority of votes cast, however, more than 25% of votes cast were against the adoption.⁶⁹

This constituted a "second strike" under the executive remuneration related provisions of the Corporations Act.⁶⁹ A "Board Spill Resolution" was put to shareholders at the 2017 AGM and was not carried by a majority of votes cast.

Comments made on the Remuneration Report were addressed by the Chairman at the AGM.

This concludes the audited Remuneration Report.

⁶⁹ The Corporations Act was amended in June 2011 to introduce the so-called "two-strikes" rule - if at least 25% of the votes cast on the adoption of the remuneration report at two consecutive AGM's are against adopting the remuneration report, shareholders will have the opportunity to immediately vote on a "Board Spill Resolution" at the second AGM, as required by section 250V of the Corporations Act. If the Board Spill Resolution is approved, a further meeting of shareholders must be held within 90 days (the Board Re-election Meeting). The directors (save for a managing director, where applicable) of a company will cease to hold office prior to the Board Re-election Meeting but are eligible to stand for re-election at the same. Key Management Personnel and their Closely Related Parties" are restricted from voting on the adoption of the remuneration report or the Board Spill Resolution but are not restricted from voting at the Board Re-election Meeting

DIRECTORS' REPORT

DIRECTORS' AND OFFICERS' INSURANCE

The Company insures Directors and Officers against liability they may incur in respect of any wrongful acts or omissions made by them in such capacity (to the extent permitted by the *Corporations Act 2001 (Cth)*) (**D&O Policy**). Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

DIRECTORS' AND OFFICERS' DEEDS

In addition to the rights of indemnity provided under the Company's Constitution (to the extent permitted by the *Corporations Act 2001 (Cth)*), the Company has also entered into a deed with each of the Directors and the Company Secretary (**Officer**) to regulate certain matters between the Company and each Officer, both during the time the Officer holds office and after the Officer ceases to be an officer of the Company, including the following matters:

- (a) The Company's obligation to indemnify an Officer for liabilities or legal costs incurred as an officer of the Company (to the extent permitted by the *Corporations Act 2001 (Cth)*); and
- (b) Subject to the terms of the deed and the *Corporations Act 2001 (Cth)*, the Company may advance monies to the Officer to meet any costs or expenses of the Officer incurred in circumstances relating to the indemnities provided under the deed and prior to the outcome of any legal proceedings brought against the Officer.

During the 2016/2017 financial year, the Company agreed to advance up to \$400,000 as loan funds in respect of former Managing Director's (Nicholas Bolton⁷⁰) legal costs incurred in circumstances where Mr Bolton's Director's Deed with the Company provided a procedure for the advancement of monies in this regard. The Company agreed to increase the advance arrangement by \$40,000 to \$440,000 during the financial year. As at 30 June 2018, \$440,000 (2017: \$335,608) has been advanced via payments made to Mr Bolton's lawyers.

The Board had agreed to advance these funds in accordance with the relevant provision of Mr Bolton's Director's Deed and subject also to various terms and conditions agreed with Mr Bolton, including a monetary cap (initially \$400,000 and increased to \$440,000 at the discretion of the Board), that advances would be provided only as payment of bills rendered by Mr Bolton's lawyers in relation to the relevant proceedings, that the Company needed to be satisfied that the amount of each legal bill was reasonable, that the Company would have access to Mr Bolton's lawyers to ensure that it was promptly informed of any material developments in relation to the proceedings and otherwise to enable the Company to assess the likely outcome of those proceedings, that Mr Bolton would be obliged to repay any amounts advanced in various circumstances specified in his Director's Deed including in any situation in which Mr Bolton is not entitled to be indemnified or advanced those costs, and a provision for review of the position once the outcome of the relevant proceeding is known, including the repayment of all or a portion of the advance (as appropriate).

LEGAL PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of a court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of such proceedings. The Company was not a party to any such proceedings during and since the financial year.

AUDITORS

Details of the amounts paid or payable to the Auditors for audit and non-audit services provided during the financial year are set out below:

Auditor	Audit & Review Fees \$	Non-Audit Services and Other Payments (including disbursements)	Total \$
		\$	
Deloitte	304,000 ^(a)	18,599	322,599

70 Who resigned as Managing Director on 17 December 2015

DIRECTORS' REPORT

Note:

(a) Includes \$210,000 pertaining to fees for the 30 June 2017 financial year.

The Board is satisfied that the provision of non-audit services by the Auditor during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001 (Cth)*. The Board is satisfied that the nature of the non-audit services disclosed above did not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and APES 110 Code of Ethics for Professional Accountants: Professional Independence, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Deloitte continues in office in accordance with section 327 of the *Corporations Act 2001 (Cth)*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001 (Cth)* forms part of this Directors Report and is set out on page 38. This relates to the Audit Report, where the Auditors state that they have issued an independence declaration.

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of this Directors' Report, other than those referred to in this Directors' Report (in particular, in the Review of Operations) or the accompanying financial statements or notes thereto (in particular Note 25 (Events occurring after the reporting period)), that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Company in subsequent financial years.

ROUNDING OFF

Keybridge is a company of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 (dated 24 March 2016). Where amounts in the Directors' Report and Financial Report have been rounded to the nearest thousand, it is in accordance with Corporations Instrument 2016/191.

Signed for and on behalf of the Directors in accordance with a resolution of the Board,



John Patton
Chairman



Simon Cato
Non-Executive Director and
Chairman of Audit, Finance and Risk Committee

31 August 2018

The Board of Directors
Keybridge Capital Limited
Suite 614, Level 6
370 St Kilda Road
Melbourne VIC 3000

31 August 2018

Dear Sirs,

Auditor's Independence Declaration to Keybridge Capital Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Keybridge Capital Limited.

As lead audit partner for the audit of the financial report of Keybridge Capital Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU


Ian Skelton
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 30 June 2018

			RESTATED
	Note	2018	2017
		\$	\$
Revenue	2		
Fees		86,791	202,213
Total revenue		86,791	202,213
Other Income	2		
Interest revenue		694,491	747,042
Dividend revenue		14,265	281,101
Other income		36,809	267,236
Total Revenue and Other Income		832,356	1,497,592
Other gains and losses:	2		
Net gain /(loss) on financial assets at fair value through profit or loss		(5,132,392)	1,274,336
Impairment reversal /(expense)		124,657	(6,036,169)
Excess of net assets over cost on acquisition	19	804,156	-
Net gain on derivative liabilities		88,021	61,615
Gain on revaluation of foreign currency assets		170,232	(353,990)
Share of Associate entity's loss	3	(760,844)	(298,555)
Expenses			
Personnel expenses		(524,270)	(645,658)
Corporate expenses		(1,658,825)	(1,111,221)
Administration expenses		(344,998)	(405,946)
Other expenses		(95,879)	(120,202)
Results from operating activities		(6,497,786)	(6,138,198)
Finance expenses		(308,073)	(308,074)
Loss before Income Tax		(6,805,859)	(6,446,272)
Income tax benefit/(expense)	5	-	-
Loss after income tax for the year		(6,805,859)	(6,446,272)
Other Comprehensive Income			
Foreign currency translation reserve		(2,557)	-
Total Comprehensive Income for the year		(6,808,416)	(6,446,272)
Basic and diluted loss per share (cents) attributable to the ordinary equity holders of the Company	6	(4.30)	(4.06)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Note	2018 \$	2017 \$
Current Assets			
Cash and cash equivalents	7	5,007,980	1,414,476
Financial assets at fair value through profit or loss	8	7,278,327	11,836,135
Receivables		106,038	406,847
Other assets		146,138	120,194
Total Current Assets		12,538,483	13,777,652
Non-Current Assets			
Loans and receivables	9	5,400,908	11,835,100
Investment in Associate entity	20	2,081,631	2,584,020
Property, plant and equipment		275	2,165
Deferred tax asset		-	-
Total Non-Current Assets		7,482,814	14,421,285
Total Assets		20,021,297	28,198,937
Current Liabilities			
Payables		320,116	360,079
Total Current Liabilities		320,116	360,079
Non-Current Liabilities			
Financial liabilities at fair value through profit or loss	8	4,053,364	4,141,385
Deferred tax liability		-	-
Total Non-Current Liabilities		4,053,364	4,141,385
Total Liabilities		4,373,480	4,501,464
Net Assets		15,647,817	23,697,473
Equity			
Issued capital	12	253,637,724	253,717,174
Reserves	13	2,134,438	3,159,013
Accumulated losses		(240,124,345)	(233,178,714)
Total Equity		15,647,817	23,697,473

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Note	Reserves				Accumulated losses	Total
		Issued capital	Share -based payments	Profits reserve	Foreign currency translation		
		\$	\$	\$	\$	\$	\$
Balance at 1 July 2016		253,717,174	286,771	1,526,167	-	(225,792,584)	29,737,528
Loss for the year		-	-	-	-	(6,446,272)	(6,446,272)
Profits reserve transfer	13	-	-	939,858	-	(939,858)	-
Total comprehensive income for the year		-	-	939,858	-	(7,386,130)	(6,446,272)
Transactions with owners in their capacity as owners:							
Share based payment	14	-	406,217	-	-	-	406,217
Balance at 30 June 2017		253,717,174	692,988	2,466,025	-	(233,178,714)	23,697,473
Balance at 1 July 2017		253,717,174	692,988	2,466,025	-	(233,178,714)	23,697,473
Loss for the year		-	-	-	-	(6,805,859)	(6,805,859)
Profits reserve transfer	13	-	-	139,772	-	(139,772)	-
Foreign currency reserve	13	-	-	-	(2,557)	-	(2,557)
Total comprehensive income for the year		-	-	139,772	(2,557)	(6,945,631)	(6,808,416)
Transactions with owners in their capacity as owners:							
Share buy-backs	12	(79,450)	-	-	-	-	(79,450)
Share-based payment	14	-	(371,388)	-	-	-	(371,388)
Dividends paid	15	-	-	(790,402)	-	-	(790,402)
Balance at 30 June 2018		253,637,724	321,600	1,815,395	(2,557)	(240,124,345)	15,647,817

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash Flows from Operating Activities			
Fees received		33,533	75,331
Interest received		26,128	288,984
Other income received		49,766	973,982
Payments to suppliers and employees		(2,925,292)	(3,432,455)
CRPN Interest payments		(308,073)	(308,074)
Net Cash used in Operating Activities	7(a)	(3,123,938)	(2,402,232)
Cash Flows from Investing Activities			
Proceeds from sale of financial assets at fair value through profit or loss		3,101,707	6,278,275
Payments for financial assets at fair value through profit or loss		(4,270,921)	(4,058,469)
Dividends received		14,265	1,709
Return of capital received		11,851	-
Proceeds from sale/repayment of loans and receivables		9,336,352	371,761
Loans provided		(153,271)	-
Purchase of shares in Associate entity		(258,455)	(240,000)
Proceeds from disposal of plant and equipment		-	2,090
Net Cash provided by Investing Activities		7,781,528	2,355,366
Cash Flows from Financing Activities			
Share buy-backs		(79,450)	-
Dividends paid		(790,402)	-
Net Cash used in Financing Activities		(869,852)	-
Net increase in cash held		3,787,738	(46,866)
Cash and cash equivalents at beginning of financial year		1,414,476	1,665,401
Effect of exchange rate fluctuations on cash held		(194,234)	(204,059)
Cash and Cash Equivalents at the end of financial year	7	5,007,980	1,414,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1. ABOUT THIS FINANCIAL REPORT

1.1 Background

This financial report covers the consolidated financial statement of the consolidated entity consisting of Keybridge Capital Limited (the **Company**), its subsidiaries and investments in associates (the **Consolidated Entity** or **Keybridge**). The financial report is presented in the Australian currency.

Keybridge Capital Limited is a company limited by shares incorporated in Australia and whose shares are publicly traded on the Australian Securities Exchange (**ASX**).

These financial statements have been prepared on a streamlined basis where key information is grouped together for ease of understanding and readability. The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Consolidated Entity.

Information is considered material and relevant if, for example:

- (a) the amount in question is significant because of its size or nature;
- (b) it is important for understanding the results of the Consolidated Entity;
- (c) it helps to explain the impact of significant changes in the Consolidated Entity's business; or
- (d) it relates to an aspect of the Consolidated Entity's operations that may be important to its future performance.

The notes to the financial statements are organised into the following sections:

- (a) **Key Performance:** Provides a breakdown of the key individual line items in the statement of comprehensive income that is most relevant to understanding performance and shareholder returns for the year:

Notes

2	Revenue and Income
3	Expenses
4	Segment information
5	Income tax
6	Loss per share

- (b) **Financial Risk Management:** Provides information about the Consolidated Entity's exposure and management of various financial risks and explains how these affect the Consolidated Entity's financial position and performance:

Notes

7	Cash and cash equivalents
8	Financial assets and liabilities at fair value through profit or loss
9	Loans and receivables
10	Financial risk management

- (c) **Other Assets and Liabilities:** Provides information on other balance sheet assets and liabilities that do not materially affect performance or give rise to material financial risk:

Notes

11	Fair value measurement of financial instruments
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- (d) **Capital Structure:** This section outlines how the Consolidated Entity manages its capital structure and related financing costs (where applicable), as well as capital adequacy and reserves. It also provides details on the dividends paid by the Company:

Notes

12	Issued capital
13	Reserves
14	Share-based payments
15	Dividends and CRPN interest payments
16	Capital risk management

- (e) **Consolidated Entity Structure:** Provides details and disclosures relating to the parent entity of the Consolidated Entity, controlled entities, investments in associates and any acquisitions and/or disposals of businesses in the year. Disclosure on related parties is also provided in the section:

Notes

17	Parent entity information
18	Investment in controlled entities
19	Business combinations
20	Investment in associate entity
21	Related party transactions

- (f) **Other:** Provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements however, are not considered significant in understanding the financial performance or position of the Consolidated Entity:

Notes

22	Auditors' remuneration
23	Loan commitments
24	Contingencies
25	Events occurring after the reporting period

Significant and other accounting policies

Significant and other accounting policies that summarise the measurement basis used and presentation policies adopted that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Critical accounting judgement and estimate

Information about the significant areas of estimation, uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Notes

5	Income tax
8	Financial assets at fair value through profit or loss
9	Loans and receivables

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1.2 Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**), Australia Accounting Interpretations and the *Corporations Act 2001 (Cth)*. The Company is a for-profit entity for the purpose of preparing the financial statements.

Keybridge is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 dated 24 March 2016. Where financial information presented in Australian Dollars has been rounded to the nearest thousand, it is in accordance with Corporations Instrument 2016/191.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Consolidated Entity comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

Reporting Basis and Financial Statement Presentation

The financial report has been prepared on a going concern basis and is based on historical costs modified by the revaluation of financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented, unless otherwise stated.

1.3 Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company as at 30 June 2018 and the results of its subsidiaries for the year then ended. The Company and its subsidiaries are referred to in this financial report as Keybridge or the Consolidated Entity.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation.

1.4 Comparative Figures

Where required by the Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Refer to Note 1.8 for details of changes made.

1.5 Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

1.6 Impairment of Assets

At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets (where applicable) to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income. Impairment testing is performed annually for goodwill and intangible assets (where applicable) with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.7 New, revised or amending Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not mandatory have not been early adopted.

1.8 Restatement of Comparatives

Upon a review of the internal records of the Consolidated Entity and the presentation in the 30 June 2017 financial report, the Company has determined to change the presentation of certain aspects of the Statement of Profit or Loss and Other Comprehensive Income to better align with industry practice and the Accounting Standards. The comparative information has been restated to reflect these changes. No additional balance sheet in the Statement of Financial Position is required as the restatement relates only to the Statement of Profit or Loss and Other Comprehensive Income and has no impact on the Statement of Financial Position. There is no change to profit before tax, other comprehensive income or earnings/(loss) per share as a result of these presentational changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1.8 Restatement of Comparatives (continued)

Statement of Profit or Loss and Other Comprehensive Income

	Reported 2017	Comparative Adjustment	Restated 2017
Revenue and Income	\$		\$
Fees	202,214	(202,214)	-
Realised gain on sale of investments	1,808,275	(1,808,275)	-
Unrealised gain on derivative liabilities	61,615	(61,615)	-
Interest revenue	747,042	(747,042)	-
Dividend revenue	281,101	(281,101)	-
Other income	267,235	(267,235)	-
Revenue			
Fees	-	202,214	202,214
	-	202,214	202,214
Other Income			
Interest income	-	747,042	747,042
Dividend income	-	281,101	281,101
Other income	-	267,235	267,235
Total Revenue and Other Income	-	1,497,592	1,497,592
Other gains and losses:			
Net gain / (loss) on financial assets at FVTPL	-	1,274,335	1,274,335
Impairment reversal / (expense)	-	(6,036,169)	6,036,169
Net gain on derivative liabilities	-	61,615	61,615
Gain / (loss) on revaluation of foreign currency assets	-	(353,990)	(353,990)
Share of Associate entity's loss	(298,555)	-	(298,555)
Expenses			
Impairment expenses	(6,036,169)	6,036,169	-
Unrealised loss on financial assets at FVTPL	(533,939)	533,939	-
Loss on revaluation of foreign currency assets	(353,990)	353,990	-
Personnel expenses	(645,658)	-	(645,658)
Corporate expenses	(1,111,221)	-	(1,111,221)
Administration expenses	(405,946)	-	(405,946)
Other expenses	(120,202)	-	(120,202)
Results from operating activities	(6,138,198)	-	(6,138,198)
Finance expenses	(308,074)	-	(308,074)
Loss before Income Tax	(6,446,272)	-	(6,446,272)
Income tax benefit/(expense)	-	-	-
Loss after income tax for the year	(6,446,272)	-	(6,446,272)
Other Comprehensive Income			
Other Comprehensive Income, net of tax	-	-	-
Total Comprehensive Income for the year	(6,446,272)	-	(6,446,272)

1.9 Summary of Accounting Standards Issued But Not Yet Effective

The Company has reviewed the new Accounting Standards and Interpretations which have been released but are not yet effective and assessed their impact as follows:

- AASB 9 will have an impact as the Consolidated Entity has loan and receivable assets. Based on the Company's initial assessment, the loans and receivables are likely to be measured at fair value through profit or loss under AASB 9. This will require the disclosure of the fair value hierarchy of these loans and receivables in Note 11 (Fair Value Measurement of Financial Instruments) when AASB 9 is adopted. This anticipated disclosure impact is not considered to be material as the carrying value of loans and receivables approximates their fair values.
- AASB 15 is not likely to have a material impact on the financial statements as the recognition of Fees revenue is not likely to change under the new standard.
- AASB 16 is not likely to have a material impact as the Consolidated Entity currently has no operating leases.

All other standards summarised in the table below are not considered to have a material impact on the Consolidated Entity's results as they are not relevant to the Consolidated Entity's current activities or transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1.9 Summary of Accounting Standards Issued But Not Yet Effective (continued)

AASB reference	Title and Affected Standard(s)	Nature of Change	Application date
AASB 9, and relevant amending standards	Financial Instruments	AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i>. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.	Annual reporting periods beginning on or after 1 January 2018
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 <i>Business Combinations</i>. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.	Annual reporting periods beginning on or after 1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1.9 Summary of Accounting Standards Issued But Not Yet Effective (continued)

AASB reference	Title and Affected Standard(s)	Nature of Change	Application date
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	Annual reporting periods beginning on or after 1 January 2018
AASB 15, and relevant amending standards	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	Annual reporting periods beginning on or after 1 January 2018
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: • AASB 1 First-time Adoption of Australian Accounting Standards – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration • AASB 12 Disclosure of Interests in Other Entities – clarification of scope • AASB 128 Investments in Associates and Joint Ventures – measuring an associate or joint venture at fair value • AASB 140 Investment Property – change in use.	Annual reporting periods beginning on or after 1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

1.9 Summary of Accounting Standards Issued But Not Yet Effective (continued)

AASB reference	Title and Affected Standard(s)	Nature of Change	Application date
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	Annual reporting periods beginning on or after 1 January 2018
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i>. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (eg. personal computers) and short-term leases (ie. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (ie. the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (eg. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	Annual reporting periods beginning on or after 1 January 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

2. REVENUE AND INCOME

	2018	RESTATED 2017
	\$	\$
The consolidated loss before income tax includes the following items of revenue:		
Revenue		
Fees		
Investment management fees	86,791	180,987
Outside Directors' fees	-	21,226
	86,791	202,213
Other income		
Interest revenue	694,491	747,042
Dividend revenue	14,265	281,101
Other income		
Litigation settlement	19,668	80,423
Unit trust distributions	12,805	42,708
Disposal of subsidiary	-	8,500
Deferred consideration on disposal of subsidiary	-	135,000
Other income	4,336	605
	745,565	1,295,379
Other gains and losses		
Realised gain on sale of financial assets at fair value through profit or loss	1,002,939	1,808,275
Unrealised loss on financial assets at fair value through profit or loss	(6,135,331)	(533,939)
Net gain /(loss) on financial assets at fair value through profit or loss	(5,132,392)	1,274,336
Reversal of impairment of loans and receivables	933,391	-
Impairment of loans and receivables	(808,734)	(6,016,733)
Impairment of Associate entity	-	(19,436)
Excess of net assets over cost on acquisition	804,156	-
Net gain on derivative liabilities	88,021	61,615
Gain on revaluation of foreign currency assets	170,232	(353,990)
	(3,945,326)	(5,054,208)
	(3,112,970)	(3,556,616)

Excess of net assets over cost on acquisition

The Consolidated Entity acquired the balance of the 50% interest in BIC Europe Limited (**BICE**) it did not own on 27 April 2018 (after the sale of the Total Solar Plant and the repayment/discharge of related loans - refer Note 9(a)). The net assets of BICE as at the date of acquisition (as to 50%) was in excess of the consideration paid by the Company and accordingly, the excess of \$804,156 has been recognised as revenue. Refer to Note 19.

Accounting policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. All revenue is stated net of the amount of Goods and Services Tax (**GST**) except where the amount of GST incurred is not payable to the Australian Tax Office. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of financial assets, goods and other assets

Revenue from the sale of financial assets, goods or other assets is recognised when the Consolidated Entity has passed control of the financial assets, goods or other assets to the buyer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

2. REVENUE AND INCOME (continued)

Accounting policy (continued)

(b) Fees and interest revenue

Interest revenue is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. When calculating the effective interest rate, the Consolidated Entity estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Where there are uncertainties in relation to the collectability of interest income, the Consolidated Entity will determine whether income is probable. Where it is not probable, the interest is accordingly not accrued. The Consolidated Entity may receive fees for such services as loan extensions or debt facility management. Fees that are integrated into the effective yield of financial assets are included in the measurement of the effective interest rate.

(c) Dividend revenue

Dividend revenue is recognised when the right to receive a dividend has been established. The Consolidated Entity brings dividend revenue to account on the applicable ex-dividend entitlement date.

(d) Other revenues

Other revenues are recognised on an accruals basis.

3. EXPENSES

	2018 \$	2017 \$
The consolidated loss before income tax includes the following items of expenses:		
Share of Associate entity's loss	760,844	298,555
Personnel expenses		
Directors' fees	393,320	545,547
Salaries and wages	47,158	82,798
Executive Share Plan	49,852	(15,023)
Other	33,940	32,336
Corporate expenses		
Professional and consulting fees	616,085	563,974
Auditing, accounting and tax services	348,051	303,392
Legal fees	694,689	243,855
Administration expenses	344,998	405,946
Other expenses	95,879	120,202
	3,384,816	2,581,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

4. SEGMENT INFORMATION

2018	Investments		Corporate	Total
	Equity	Debt		
	\$	\$	\$	\$
Segment profit and loss				
Revenue and income	1,894,335	1,010,554	117,472	3,022,361
Expenses	(7,799,250)	(210,030)	(1,510,867)	(9,520,147)
Results from operating activities	(5,904,915)	800,524	(1,393,395)	(6,497,786)
Finance expenses	-	-	(308,073)	(308,073)
Profit/(Loss) before Income Tax	(5,904,915)	800,524	(1,701,468)	(6,805,859)
Income tax expense	-	-	-	-
Profit/(Loss) for the year	(5,904,915)	800,524	(1,701,468)	(6,805,859)
Segment assets	10,672,484	5,307,966	4,040,847	20,021,297
Segment liabilities	-	(70,151)	(4,303,329)	(4,373,480)
Net assets	10,672,484	5,237,815	(262,482)	15,647,817
2017				
Segment profit and loss				
Revenue and income	2,180,624	1,002,968	183,890	3,367,482
Expenses	(1,162,540)	(6,502,683)	(1,840,457)	(9,505,680)
Results from operating activities	1,018,084	(5,499,715)	(1,656,567)	(6,138,198)
Finance expenses	-	-	(308,074)	(308,074)
Profit/(Loss) before Income Tax	1,018,084	(5,499,715)	(1,964,641)	(6,446,272)
Income tax expense	-	-	-	-
Profit/(Loss) for the year	1,018,084	(5,499,715)	(1,964,641)	(6,446,272)
Segment assets	14,572,838	11,078,251	2,547,848	28,198,937
Segment liabilities	(13,200)	-	(4,488,264)	(4,501,464)
Net assets	14,559,638	11,078,251	(1,940,416)	23,697,473

Accounting policy

The Consolidated Entity operates principally in the Australian geographical area. An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results for which discrete financial information is available are regularly reviewed by the Company's Investment Committee (being the 'chief operating decision-maker' under ASAB 8 (Operating Segments)) to make decisions about resources to be allocated to the segment and to assess its performance.

Segment results that are reported to the Investment Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Consolidated Entity has two strategic business segments as described below:

- Equity Investments comprise investments in listed and unlisted equities with exposure to various sectors from time to time;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

4. SEGMENT INFORMATION (continued)

(b) Debt investments comprise loans advanced, debts secured via assignment and investments in debt instruments with exposure to a number of different sectors, as follows:

- Infrastructure: Loans advanced to finance the development and construction of a Solar Plant in Spain. The asset was sold and the loans repaid/discharged on 27 April 2018.
- Private Equity: Promissory note issued by a US private investment company secured (via collateral pledged) over its interest in a private equity fund which has investments in US based manufacturing/distribution businesses.
- Insurance: Notes issued by the owner of a life insurance business in New Zealand.
- Property: Creditor of private companies (both in liquidation) with security held via registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in Manly, Sydney.

An additional Corporate segment relates to corporate assets and operations.

5. INCOME TAX

	2018	2017
	\$	\$
(a) The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
(b) The prima facie tax on operating loss before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on operating loss before income tax at 27.5% (2017: 27.5%)	(1,871,611)	(1,772,725)
Adjust tax effect of:		
Non-deductible expenses	1,455	98,995
Franking credits	-	33,624
Current year tax losses not brought to account	1,870,156	1,640,106
Income tax attributable to entity	<u>-</u>	<u>-</u>

	2016	Annual movement recognised	2017	Annual movement recognised	2018
	\$	\$	\$	\$	\$
(c) Deferred taxes					
Deferred tax assets					
Loans and receivables	2,815,828	1,434,116	4,249,944	(1,683,560)	2,566,384
Other investments	367,610	(351,672)	15,938	1,486,994	1,502,932
Other	176,619	(104,585)	72,034	(29,093)	42,941
Tax losses	(3,360,057)	(687,372)	(4,047,429)	58,169	(3,989,260)
	<u>-</u>	<u>290,487</u>	<u>290,487</u>	<u>(167,490)</u>	<u>122,997</u>
Deferred tax liabilities					
Other investments	-	(219,080)	(219,080)	191,696	(27,384)
Financial liabilities	-	(71,407)	(71,407)	(24,206)	(95,613)
	<u>-</u>	<u>(290,487)</u>	<u>(290,487)</u>	<u>167,490</u>	<u>(122,997)</u>
Deferred tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

5. INCOME TAX (continued)

	2018	2017
	\$	\$
(d) Unrecognised deferred tax balances		
Unrecognised deferred tax asset - revenue losses	43,680,976	43,501,926
Unrecognised deferred tax asset - capital losses	150,347	189,807
	43,831,323	43,691,734

Critical accounting judgement and estimate

The Consolidated Entity is subject to income taxes (and other similar taxes) in Australia. Judgement is required in determining the Consolidated Entity's provision for income taxes.

Deferred tax assets have not been recognised as, in the Directors' opinion, it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits. The utilisation of revenue and capital tax losses are subject to compliance with taxation legislation.

Tax Consolidation

The head entity, Keybridge Capital Limited, and its then Australian controlled entities have formed a tax consolidated group with effect from June 2013. The members of the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets (as appropriate) arising from unused tax losses and unused tax credits pertaining to controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Consolidated Entity.

Accounting policy

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate for each taxing jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses (if applicable).

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each taxing jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The amount of deferred tax assets benefits brought to account or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

5. INCOME TAX (continued)

Accounting policy (continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Consolidated Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

6. LOSS PER SHARE

	2018 cents	2017 cents
Basic and diluted loss per share	(4.30)	(4.06)
The following represents the loss and weighted average number of shares used in the EPS calculations:	2018 \$	2017 \$
Net loss after income tax	(6,805,859)	(6,446,272)
	Number of shares	
Weighted average number of ordinary shares	158,296,395	158,812,327

The Company has 9 million (2017: 15 million) unlisted Executive Share Plan shares and 4,401,047 (2017: 4,401,047) listed Convertible Redeemable Promissory Notes (ASX:KBCPA) which have not been included in the calculation of the weighted average number of ordinary shares as they are considered to be antidilutive pursuant to AASB 133 (Earnings per Share). Potential ordinary shares are considered antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings/loss per share (above) does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings/(loss) per share.

Accounting policy

Basic earnings/loss per share is determined by dividing the operating result after income tax by the weighted average number of ordinary shares on issue during the financial period.

Diluted earnings/loss per share adjusts the figures used in the determination of basic earnings/loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

7. CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Cash at bank	5,007,980	1,414,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

7. CASH AND CASH EQUIVALENTS (continued)

(a) Reconciliation of operating loss after income tax to net cash provided by operating activities	2018	2017
	\$	\$
Loss after income tax	(6,805,859)	(6,446,272)
Add non-cash items:		
Share of Associate entity's loss	760,844	298,555
Net unrealised loss on financial assets at fair value through profit or loss	6,135,331	533,939
Net loss on revaluation of foreign currency assets	(170,232)	353,990
Net unrealised gain on derivative liabilities	(88,021)	(61,615)
Impairment expenses	(124,657)	6,036,169
Depreciation	1,890	5,363
Disposal of equipment	-	4,342
Executive Share Plan	49,852	(15,023)
Excess of net assets over cost on acquisition	(804,156)	-
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	(555,181)	(1,509,511)
Loans and receivables	(1,419,908)	-
Receivables	(61,928)	(64,532)
Other assets	(25,944)	(849,584)
Payables	(15,969)	(688,053)
	(3,123,938)	(2,402,232)

Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts (if any) are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	\$	\$
Financial assets at fair value through profit or loss		
Shares in listed investments	7,155,396	11,732,734
Unlisted investments at fair value	99,579	103,401
Futures derivatives at fair value	23,352	-
	7,278,327	11,836,135
Financial liabilities at fair value through profit or loss		
Convertible redeemable promissory notes (CRPN)	4,053,364	4,141,385
Movement in CRPN		
Opening balance	4,141,385	4,203,000
Unrealised loss/(gain) on revaluation	(88,021)	(61,615)
Closing balance	4,053,364	4,141,385

Futures derivatives comprise exchange traded index futures contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Convertible redeemable promissory notes (CRPN)

The listed CRPN's (ASX:KBCPA) are measured and recognised as a financial liability at fair value through profit or loss. The CRPN's were issued on 30 June 2015 on the following terms:

- face value of \$1.00 each with maturity on 31 July 2020;
- fixed interest rate of 7% per annum generally payable in arrears on 20 March, 20 June, 20 September and 20 December each year;
- regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividends';
- interest payments are fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component and 'qualified' Australian resident holders will have access to franking credits in this regard;
- ranks ahead of ordinary shares with preferential right to payment of distributions and capital on winding up;
- at maturity, a holder has the ability to request a conversion of their CRPN to ordinary shares at a 2.5% discount to the volume weighted average price (**VWAP**) of the Company's listed shares (ASX:KBC) at the time. The Company may respond to the holder's request by either converting the CRPN into ordinary shares or redeeming the CRPN for cash at face value; and
- the Company may also elect to convert the CRPN to ordinary shares at a 5% discount to VWAP at maturity or redeem the CRPN for cash on the occurrence of certain trigger events.

For further details, refer to the CRPN Prospectus (dated 17 June 2015) and ATO Class Ruling CR 2015/54.

Critical accounting judgement and estimate

Judgements have been made in the determination of the carrying value and fair value of financial assets held at fair value through profit or loss. In making these judgements, the Consolidated Entity may give additional consideration to adopting the most recent bid price (prior to the balance date) of listed investments suspended from trading on a securities exchange as at balance date and the underlying value of unlisted investments.

Investment in Molopo Energy Limited (ASX:MPO) (suspended from ASX since 25 July 2017)

As at the previous (30 June 2017) balance date, Keybridge adopted a carrying value of \$0.145 per share in respect of its 46,017,543 (30 June 2017: 49,683,828) MPO shareholding, which was the closing (last bid) price on ASX as at 26 May 2017 (the day prior to MPO's suspension on 29 May 2017). MPO shares resumed trading on ASX on 4 July 2017 but were suspended again on 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 its suspension. As at the (30 June 2018) balance date, Keybridge has adopted a carrying value of \$0.026 per MPO share – which has resulted in a \$5.912 million provision for impairment expense being recognised for the financial year.

The revised \$0.026 per share carrying value for MPO was 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 2018 (per MPO's Quarterly Report for the quarter ending 30 June 2018 dated 31 July 2018 and released on ASX on 1 August 2018);
- (b) MPO's C\$8.4 million (A\$8.597 million, at an exchange rate of A\$1.00 : C\$0.9771 as at 30 June 2018) provision in respect of Canadian litigation matters (per MPO's Annual Report for the year ended 31 December 2017 released on ASX on 8 May 2018);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

No value has been ascribed to 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\$4.41 million, current liabilities of US\$0.29 million and net assets of US\$18.2 million (A\$24.62 million, at an exchange rate of A\$1.00 : US\$0.7391 as at 30 June 2018), as at 31 March 2018 (per MPO's ASX announcement dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio).

Drawbridge's cash outflows for the 6 month period between April and September 2018 have not been taken into account - this is estimated to be US\$6.61 million (gross) or US\$1.1 million (A\$1.49 million, at an exchange rate of A\$1.00 : US\$0.7391 as at 30 June 2018) per month (per MPO's 8 May 2018 ASX announcement).

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. Further details are in the Directors' Report.

Accounting policy

Financial assets at fair value through profit or loss

Financial instruments are initially measured at cost on the trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, financial assets are valued at fair value through profit and loss where they are acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: (Recognition and Measurement of Financial Instruments) will any realised and unrealised gains and losses arising from changes in the fair value of these assets being recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date which is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques, including but not limited to recent arm's length transactions, reference to similar instruments and option pricing models. A variety of methods and assumptions may be utilised based on market conditions existing at each Balance Date. The Consolidated Entity's investment portfolio is accounted for as a "financial assets at fair value through profit and loss" and is carried at fair value.

Financial liabilities at fair value through profit or loss

The Consolidated Entity initially recognises other financial liabilities on the date that they are originated, which is the date the Consolidated Entity becomes a party to the contractual provisions of the instrument. The Consolidated Entity derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Consolidated Entity classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. CRPNs are measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

9. LOANS AND RECEIVABLES

	2018			2017		
	Gross value \$	Impairment \$	Total \$	Gross value \$	Impairment \$	Total \$
Infrastructure	-	-	-	12,513,921	(6,082,358)	6,431,563
Private equity	6,527,973	(5,995,422)	532,551	6,507,133	(5,995,422)	511,711
Property	4,188,735	(3,303,735)	885,000	4,188,735	(3,303,735)	885,000
Insurance	3,135,158	-	3,135,158	3,249,977	-	3,249,977
Other	2,228,764	(1,380,565)	848,199	882,744	(125,895)	756,849
	16,080,630	(10,679,722)	5,400,908	27,342,510	(15,507,410)	11,835,100

	2018 \$	2017 \$
Movement in impairment		
Opening balance	15,507,410	9,490,677
Previous impairments written off	(5,178,256)	-
Impairment (reversal) /expense	(124,657)	6,016,733
Reversal of share based payment reserve (Note 13)	475,224	-
Closing balance	10,679,722	15,507,410

- (a) **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 \$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 (which has been recognised as a loan receivable at balance date). 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 Keybridge's ASX announcement dated 30 April 2018: Sale of Totana Solar Plant Assets.

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

- (b) **Loan Receivables - Private Equity**: Keybridge advanced ~US\$4.3m to RPE I Investor LLC (**RPE Investor**) (a subsidiary of Republic Financial Corporation (**RPC**), a US private investment company) under a limited recourse promissory note (**Note**) secured (via collateral pledged) over RPE Investor's 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 was repayable 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)

On 24 August 2017, Keybridge received notice from an RPC Executive (Republic) advising that it was 'highly unlikely that the Note would 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

9. LOANS AND RECEIVABLES (continued)

(b) Loan Receivables - Private Equity (continued):

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. This was advised in Keybridge'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 report, 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 balance date 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.

(c) Loan Receivables – Property: Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in Manly, Sydney as security for loans to private companies (which are in liquidation). As at balance date, the loan was carried at \$0.985m (2017: \$0.885m) (based on the Directors' judgement) – by reference to an independent valuation received in respect of the lots in May 2016.

(d) Loan Receivables – Insurance: Keybridge has invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m 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) (amended in September 2017 from 10 years) or by Foundation (from time to time). During the financial year, Keybridge received NZ\$0.301m (A\$0.277m) distributions from Foundation. As at balance date, the loan balance is NZ\$3.418m (A\$3.135m) (2017: NZ\$3.41m and A\$3.25m).

(e) Loan Receivables - Other: Includes

- (i) \$0.315m (€0.2m) deferred consideration receivable in August 2019, being 18 months after the sale of the Totana Solar Plant asset which was completed on 27 April 2018;
- (ii) \$0.93m (2017: Nil) attributable to 3,666,285 shares in Molopo Energy Limited (ASX:MPO) that were vested in the Commonwealth (on trust for Keybridge) on 7 July 2017 under the declaration and orders of the Takeovers Panel in the matter of Molopo Energy Limited 03R, 04R & 05R. These vested shares will be sold by ASIC with the proceeds of sale accounted to the Company (net of the costs, fees and expenses of the sale and any costs, fees and expenses incurred by ASIC and the Commonwealth (if any)). As these vested MPO shares are held on trust for Keybridge pending sale by ASIC, Keybridge continues to recognise the shares as company assets (as a loan receivable) at the same carrying value per share as its holding of 46 million MPO shares (2.6 cents per share - further details are in Note 8). This has resulted in a provision for impairment expense of \$0.436 million being recognised in respect of this 3.67 million parcel of MPO shares for the financial year;
- (iii) \$0.44m (2017: \$0.336m) loan advance to a former Director (Nicholas Bolton) - further details are in Note 21(d)(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

9. LOANS AND RECEIVABLES (continued)

Critical accounting judgement and estimate

Judgements have been made in the determination of the carrying value, fair value and recoverability of various loans and receivables. In making these judgements, the Consolidated Entity has given additional consideration to loans and receivables that have not been making interest and or principal repayments during the year as discussed below.

Accounting policy

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition Loans and Receivables are measured using the 'effective interest method', less any impairment losses.

The collectability of debts is assessed at reporting date and where required, specific provision is made for any doubtful debts or on a collective basis for a portfolio of loans considered collectively impaired.

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

10. FINANCIAL RISK MANAGEMENT

The Consolidated Entity seeks to minimise the effects of financial risks arising in the normal course of the Consolidated Entity's business.

Financial risk management is undertaken by Management/the Investment Committee (**IC**) under policies approved by the Board. During the year, Management/the IC continued to monitor the Consolidated Entity's policies and sought Board approval for any necessary changes to manage financial risks. The IC members are Directors, John Patton and William Johnson.

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to the Consolidated Entity's risk management, compliance and control systems. These systems require Management/the IC to be responsible for identifying and managing the Consolidated Entity's risks in this regard.

The Board has an Audit, Finance and Risk Committee (**AFRC**). The AFRC's responsibilities include assisting the Board to achieve the Board's oversight requirements in relation to financial risk management, internal control and risk management.

The Consolidated Entity's principal financial assets comprise cash and cash equivalents, trade and other receivables, loans and loan receivables, debt instruments/securities and investments in listed and unlisted securities. The Consolidated Entity's principal financial liabilities comprise the listed CRPN (which were issued as an in-specie return of capital effected in June 2015) and trade and other payables. The Consolidated Entity's activities expose it to a variety of direct and indirect financial risks comprising market risk, interest rate risk, credit risk, liquidity risk and foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

10. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equities and property prices will affect the Consolidated Entity's profitability. The objective of market risk management is to seek to manage and control risk exposures within acceptable parameters, while optimising expected returns.

(i) Price risk

The Consolidated Entity is exposed to equity securities price risk. This arises from investments held by the Consolidated Entity and classified in the Statement of Financial Position at fair value through profit or loss. The Consolidated Entity may also be indirectly exposed to commodity price risk in respect of its underlying investments.

The value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all instruments in the market. The Consolidated Entity will always be subject to market risk as it invests its capital in securities that are not risk free. This is reflected in the market price of these securities which can and will fluctuate. The Consolidated Entity may endeavour to manage this risk through entering into derivative contracts, futures, options or swaps (as applicable).

Equity price risk is also managed by ensuring that investment activities are undertaken in accordance with Board established mandate limits and investment strategies.

Sensitivity analysis

The Consolidated Entity has performed a sensitivity analysis on its exposure to equity securities price risk for its listed financial assets at fair value through profit or loss. The analysis demonstrates the effect on the current year results and equity which could result from a change in these risks. The ASX/S&P 200 Accumulation Index was utilised as the benchmark for the investment portfolio.

	Profit or loss		Equity	
	2018	2017	2018	2017
	\$	\$	\$	\$
5% increase	357,770	586,637	357,770	586,637
5% decrease	(357,770)	(586,637)	(357,770)	(586,637)

(ii) Interest rate risk

The Consolidated Entity is exposed to interest rate risk primarily in cash held in interest bearing instruments. The weighted average interest rate of the cash deposits for the year is 1.65%.

The Consolidated Entity's Loans and Receivables are generally at fixed rates and where applicable, asset-specific debt may be 'term matched' with fixed interest rates to endeavour to hedge those specific cash flows. The Consolidated Entity's policy is to ensure that, where appropriate, all material interest rates in relation to non-recourse financing within an investment are fixed for the term of the non-recourse financing.

The Consolidated Entity may be entitled to receive a fixed rate of interest in relation to its financial assets. Interest income received as cash or, where there is a reasonable probability of receipt, accrued as income, are recognised in the profit and loss statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

10. FINANCIAL RISK MANAGEMENT (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates throughout the reporting period would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates remain constant. As at 30 June 2018 the Consolidated Entity is exposed to cash-on-hand deposit interest rates. Cash flow sensitivity analysis for variable rate instruments are as follows:

	Profit or loss		Equity	
	2018	2017	2018	2017
	\$	\$	\$	\$
100bp increase				
Variable rate instruments	50,080	14,145	-	-
Cash flow sensitivity (net)	50,080	14,145	-	-
100bp decrease				
Variable rate instruments	(50,080)	(14,145)	-	-
Cash flow sensitivity (net)	(50,080)	(14,145)	-	-

(b) Credit risk

The Consolidated Entity is exposed to credit risk in the event that a counterparty fails to meet its contractual obligations in relation to the Consolidated Entity's investments or deposits with banks and other financial institutions.

The Consolidated Entity manages ongoing credit risk by monitoring the performance of investments, the cyclical impact of the underlying asset class, and financial health of counterparties, banks and other financial institutions.

Trade receivables

The maximum exposure to credit risk is the carrying amount of assets, net of any provision for doubtful debts of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements. The Consolidated Entity does not have any material credit risk exposure to any single trade debtor.

Cash and cash equivalents

Credit risk for cash deposits is managed by holding cash with reputable financial institutions (predominantly Australian banks).

The carrying amount of the Consolidated Entity's financial assets represents its maximum credit exposure. The Consolidated Entity's credit risk exposure relates mainly to the following assets at the reporting date:

	2018	2017
	\$	\$
Cash and cash equivalents	5,007,980	1,414,476
Loans and receivables	5,400,908	11,835,100
Trade and other receivables	106,038	406,847
	10,514,926	13,656,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

10. FINANCIAL RISK MANAGEMENT (continued)

The Consolidated Entity's most significant counterparty exposure relates to non-current Loans and Receivables totaling \$5.401 million as at 30 June 2018 (2017: \$11.835 million).

Within Private Equity, the Consolidated Entity has granted a loan which is secured by interests held in a private equity fund (which hold investments in US-domiciled manufacturing/distribution businesses). Investments made by the fund may have senior debt at the investment level and as such, the loan investment is indirectly impacted by changes in credit markets that may affect investments held by the fund.

(c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity may encounter difficulty in meeting obligations associated with financial liabilities. The Consolidated Entity has CRPNs on issue and otherwise has no borrowings. The Consolidated Entity's non-cash investments can be realised to meet payables arising in the normal course of business and to meet the quarterly interest payments to CRPN holders. The Company may elect to convert the CRPN into ordinary shares (at any time and at maturity). Refer Note 8 for further details in relation to the CRPN.

The current financial liabilities (ie. payables) have a maturity obligation of not more than 30 days. The non-current financial liabilities (ie. CRPN, inclusive of assumed accrued interest) have maturity obligations as follows:

	2018	2017
	\$	\$
CRPN - expected cash outflow		
Not more than 1 year	308,073	308,073
Longer than 1 year but not longer than 4 years	4,709,120	5,017,194
	<u>5,017,193</u>	<u>5,325,267</u>

(d) Foreign currency risk

Foreign currency risk arises from assets and liabilities that are denominated in a currency that is not the Consolidated Entity's functional currency, being Australian dollars (**AUD**). The Consolidated Entity has a significant loan receivable denominated in New Zealand dollars (**NZD**) (Insurance) (refer Note 9), material investments denominated in US dollars (**USD**) and minor investments denominated in other currencies. The Consolidated Entity also holds cash reserves denominated in foreign currencies from time to time, with a material exposure to Euros (**EUR**) at balance date. The Consolidated Entity does not hedge its assets denominated in foreign currencies and is therefore exposed to foreign exchange (**FX**) movements when the value of such assets are translated into Australian dollars. Any loss or gain arising on translation is recorded in the profit or loss statement. The Consolidated Entity's exposure to foreign currency risk at balance date was as follows:

AUD equivalents	USD	Euro	NZD
2018	\$	\$	\$
Cash and cash equivalent	(1,362,908)	7,041,760	176,873
Financial assets at fair value through profit or loss	1,478,031	-	99,579
Loans and Receivables	532,551	-	3,135,158
Total asset exposure	<u>647,674</u>	<u>7,041,760</u>	<u>3,411,610</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

10. FINANCIAL RISK MANAGEMENT (continued)

	USD	Euro	NZD
	\$	\$	\$
2017			
Cash and cash equivalent	38,927	335,270	306,684
Financial assets at fair value through profit or loss	-	-	103,401
Loans and Receivables	511,711	6,431,564	3,249,977
Net exposure at carrying value	550,638	6,766,834	3,660,062

Sensitivity analysis

The Consolidated Entity has performed a sensitivity analysis on its exposure to foreign currency risk. It demonstrates the gain/loss on translation in AUD terms if there was a 10% change in relevant foreign currency exchange rates, as follows:

	USD	Euro	NZD
	\$	\$	\$
2018			
10% increase	(64,767)	(704,176)	(341,161)
10% decrease	64,767	704,176	341,161
2017			
10% increase	(55,064)	(676,683)	(366,006)
10% decrease	55,064	676,683	366,006

11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following tables present the Consolidated Entity's financial assets and liabilities measured and recognised at fair value at balance date categorised by the following levels:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The investment in Molopo Energy Limited (ASX:MPO) has transferred from category Level 2 to Level 3 due to MPO's suspension from ASX during the year (since 25 July 2017) and the adoption of a carrying value as at balance date based on the Directors' judgment (refer Note 8 and Note(9)(e)(iii)).

Level 3 fair value measurements

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

2018	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets at fair value through profit or loss:				
Shares in listed investments	5,982,292	-	1,196,456	7,178,748
Futures derivative at fair value	23,352	-	-	23,352
Unlisted investments at fair value	-	-	99,579	99,579
Total financial assets	6,005,644	-	1,296,035	7,301,679
Financial liabilities at fair value through profit or loss				
CRPN	4,053,364	-	-	4,053,364
Total financial liabilities	4,053,364	-	-	4,053,364
2017				
Financial assets at fair value through profit or loss:				
Shares in listed investments	4,528,579	7,204,155	-	11,732,734
Unlisted investments at fair value	-	-	103,401	103,401
Total financial assets	4,528,579	7,204,155	103,401	11,836,135
Financial liabilities at fair value through profit or loss				
CRPN	4,141,385	-	-	4,141,385
Total financial liabilities	4,141,385	-	-	4,141,385

Accounting policy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) is based on quoted market prices at balance date. The quoted market price used for financial assets held by the Consolidated Entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques including but not limited to recent arm's length transactions, reference to similar instruments and option pricing models. The Consolidated Entity may use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Consolidated Entity for similar financial instruments.

The Consolidated Entity's "financial assets at fair value through profit and loss" and "financial liabilities at fair value through profit and loss" is carried at fair value based on the quoted last bid prices at the reporting date (refer Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

11. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as the use of quoted market prices or dealer quotes for similar instruments. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The difference between the carrying amount and the fair value of the Loans and Receivables is as a result of discounting the estimated future cash flows of the loan and receivable using prevailing market rates i.e. if the Consolidated Entity were to provide new loans and advances or acquire new borrowing facilities as at balance date instead of the original effective interest rate.

Fair values of other financial instruments

Financial assets

Cash and cash equivalents

Trade and other receivables

2018	2017
\$	\$
5,007,980	1,414,476
106,038	406,847
5,114,018	1,821,323

Financial liabilities

Payables

(320,116)	(360,079)
------------------	------------------

Due to their short-term nature, the carrying amounts of cash, current receivables and current payables are assumed to approximate their fair value.

12. ISSUED CAPITAL

	2018	2017
	\$	\$
158,080,432 (2017: 158,812,327) Fully paid ordinary shares	253,637,724	253,717,174

The Company also have on issue the listed CRPN's, which are convertible into fully paid ordinary shares (refer Note 8) and unlisted fully paid ordinary shares (subject to vesting conditions, escrow and dividend/voting restrictions) issued under the Executive Share Plan (Note 14).

Movement in ordinary shares

At 1 July 2016

At 30 June 2017

Share buy-back

At 30 June 2018

of shares	\$'000
158,812,327	253,717,174
-	-
158,812,327	253,717,174
(731,895)	(79,450)
158,080,432	253,637,724

Share buy-back

During the financial year, the Company bought back 731,895 shares at a total cost of \$79,450 and at an average buy-back cost of \$0.1086 per share. This was pursuant to the on-market share buy-back announced on 18 January 2017 which expired on 15 December 2017. On 5 December 2017, the Company lodged a fresh ASX Appendix 3C Announcement of Share Buy-Back Notice announcing an intention to undertake an on-market buy-back of up to 14,227,238 listed shares (being ~9% of 158,080,432 total shares on issue)) on or before 30 November 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

12. ISSUED CAPITAL (continued)

Accounting policy

Ordinary shares are classified as equity. Fully paid ordinary shares carry one vote per share and the right to dividends.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

13. RESERVES

	2018	2017
	\$	\$
Profits reserve	1,815,395	2,466,025
Share-based payment reserve	321,600	692,988
Foreign currency translation reserve	(2,557)	-
	2,134,438	3,159,013

Movements in Profits reserve

Opening balance	2,466,025	1,526,167
Profits reserve transfer	139,772	939,858
Dividends paid (Note 15)	(790,402)	-
Closing balance	1,815,395	2,466,025

Movements in Share based payment reserve

Opening balance	692,988	286,771
Recognition of Share based payment reserve	103,836	406,217
Reversal of Share based payment reserve	(475,224)	-
Closing balance	321,600	692,988

Profits reserve

This comprises the appropriation from net profits during a relevant period and characterises profits available for distribution as dividends in future years.

Share-based payment reserve (refer Note 14)

This comprises the portion of the fair value of the Employee Share Plan shares recognised as an expense.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve as described in the accounting policy note below and accumulate in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Accounting policy

Profit reserve

An increase in the Profits Reserve will arise when the Company generates a net profit (after tax) for a relevant financial period (eg. half year or full year) which the Board determines to credit to the Company's Profits Reserve. Dividends may be paid out of (and debited from) the Company's Profits Reserve, from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

13. RESERVES (continued)

Accounting policy (continued)

Foreign currency translation reserve

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for Consolidated Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- (iii) all resulting exchange differences are recognised in Other Comprehensive Income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in Other Comprehensive Income.

14. SHARE BASED PAYMENTS

The Consolidated Entity has the following share based payment arrangements:

Grant date	Expiry date	Fair value at grant date (\$)	Exercise price (\$)	Opening balance	During the year			Closing balance	Vested and exercisable at year end
					Granted	Exercised	Cancelled		
<u>Financial year 2018</u>									
19-Dec-14	31-Dec-17	0.04	0.23	10,000,000	-	-	(4,000,000)	6,000,000	6,000,000
19-Dec-14	31-Dec-17	0.02	0.35	5,000,000	-	-	(2,000,000)	3,000,000	3,000,000
				15,000,000	-	-	(6,000,000)	9,000,000	9,000,000
Weighted average exercise price				0.27				0.27	0.27
<u>Financial year 2017</u>									
19-Dec-14	31-Dec-17	0.04	0.23	10,000,000	-	-	-	10,000,000	6,666,666
19-Dec-14	31-Dec-17	0.02	0.35	5,000,000	-	-	-	5,000,000	3,333,334
				15,000,000	-	-	-	15,000,000	10,000,000
Weighted average exercise price				0.27				0.27	0.27

On 28 November 2014, shareholders approved the Company's Executive Share Plan (**ESP**). For accounting purposes (under AASB 2 (Share-based Payment)), the ESP shares were treated as options over shares in the Company with the 'option' expiry date being the maturity date in respect of the ESP loans granted to holders to fund the cost of the ESP shares issued.

The ESP involved the Company providing interest-bearing limited-recourse loans to fund the cost of fully paid ordinary shares issued to eligible executives and employees, typically with vesting conditions. Under the ESP loan arrangements, the Company took security over the relevant ESP shares, which are unlisted and held in escrow until repayment of the relevant loans. The applicable interest rate was 6.45% per annum, capitalised monthly. The loans were repayable on 31 December 2017 (with a facility for earlier payment in accordance with the terms of the ESP loan arrangements, including in the event the executive/employee ceased employment with the Company). The principal amount of the ESP loan is with limited-recourse against the ESP shares issued and the accrued interest component is full-recourse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

14. SHARE BASED PAYMENTS (continued)

As the ESP loans were created in respect of newly issued ESP shares (as opposed to being advanced to acquire existing shares on-market), shareholders were not exposed to any cash loss risk arising from non-repayment of any such loans. Further details about the ESP are contained in the Company's ASX announcement dated 19 December 2014 (Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares) and in the Company's Notice of AGM released on ASX on 19 October 2014.

Accounting policy

Shared-based compensation benefits were provided to relevant Executive Directors (after receipt of shareholder approval) and other executives/employees under the Company's Executive Share Plan (**ESP**) (approved by shareholders on 28 November 2014). Shares issued under the ESP were treated as options over shares in the Company, in accordance with AASB 2 (Share-based Payment).

The fair value of performance rights granted were recognised as an employee benefits expense with a corresponding increase in equity. The total amount expensed were determined by reference to the fair value of the options granted, which included any market performance conditions and the impact of any non-vesting conditions but excluded the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions were included in assumptions about the number of options that were expected to vest. Total expense was recognised over the vesting period, which was the period over which all of the specified vesting conditions were to be satisfied. At the end of each period, the entity revised its estimates of the number of options that were expected to vest based on applicable non-marketing vesting conditions. The Company recognised the impact of any revisions to the original estimates in profit or loss with a corresponding adjustment to equity.

15. DIVIDENDS AND CRPN INTEREST PAYMENTS

		2018	2017
	Paid On	\$	\$
Dividends paid during the financial year:			
0.5 cent per share fully franked dividend	08-Dec-17	790,402	-
		790,402	-
CRPN interest paid during the financial year:	Paid On		
CRPN interest payment (fully franked)	21-Sep-16	-	77,018
CRPN interest payment (fully franked)	21-Dec-16	-	77,018
CRPN interest payment (fully franked)	23-Mar-17	-	77,018
CRPN interest payment (fully franked)	20-Jun-17	-	77,020
CRPN interest payment (fully franked)	20-Sep-17	77,019	-
CRPN interest payment (fully franked)	20-Dec-17	77,020	-
CRPN interest payment (fully franked)	20-Mar-18	77,019	-
CRPN interest payment (fully franked)	20-Jun-18	77,020	-
		308,078	308,074

CRPNs are regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend'. Interest payments will be fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component. 'Qualified' Australian resident holders will have access to franking credits in this regard. Further details are in the CRPN Prospectus (dated 17 June 2015) and ATO Class Ruling CR 2015/54.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

15. DIVIDENDS AND CRPN INTEREST PAYMENTS (continued)

	2018	2017
	\$	\$
Franking credits available for subsequent periods based on a tax rate of 27.5% (2017: 27.5%)	<u>7,702,089</u>	<u>7,835,214</u>

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) Franking credits that will arise from the receipt of dividends recognised as receivables at balance date;
- (b) Franking credits that will arise from the payment of the amount of the provision for income tax; and
- (c) Franking debits that will arise from the payment of dividends and CRPN interest recognised as a liability at balance date.

The franking credits attributable to the Consolidated Entity include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid out as franked dividends.

Accounting policy

Provision is made for the amount of any dividend declared (being appropriately authorised and no longer at the discretion of the entity) on or before the end of the financial year but not distributed at the Balance Date.

16. CAPITAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure balancing the interests of all shareholders.

The Board will consider capital management initiatives as is appropriate and in the best interests of the Company and shareholders from time to time, including undertaking capital raisings, issues of CRPNs (or equivalents), CRPN and share buy-backs, capital returns/reductions and the payment of dividends.

The Consolidated Entity has no external borrowings (other than CRPNs). The Consolidated Entity's non-cash investments can be realised to meet accounts payable arising in the normal course of business and to meet the quarterly interest payments to CRPN holders. The Company may also elect to convert the CRPN into ordinary shares (at any time and at maturity). Refer Note 8 for further details in relation to the CRPN.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

17. PARENT ENTITY INFORMATION

The following information provided relates to the Company, Keybridge Capital Limited, as at 30 June 2018.

	2018	2017
	\$	\$
Statement of profit or loss and other comprehensive income		
Profit/(Loss) for the year	(7,562,924)	217,765
Income tax		-
Total comprehensive income for the year	(7,562,924)	217,765
Statement of financial position		
Current assets	13,055,851	2,277,126
Non-current assets	6,243,390	25,551,427
Current liabilities	(221,274)	(360,080)
Non-current liabilities	(4,555,044)	(4,141,385)
Net assets	14,522,923	23,327,088
Issued capital	253,637,724	253,717,174
Reserves	1,960,012	2,982,031
Accumulated losses	(241,074,813)	(233,372,117)
Equity	14,522,923	23,327,088

18. INVESTMENT IN CONTROLLED ENTITIES

Investment in controlled entities	Incorporated	Ownership interest	
		2018	2017
Bridge Financial Pty Limited	Australia	100%	100%
Bridge Property Investments Pty Limited	Australia	100%	100%
KBC Telco Infrastructure Pty Limited	Australia	100%	100%
MB Finance Pty Limited	Australia	100%	100%
Bridge Infrastructure Capital Pty Limited (Note 19)	Australia	100%	50%
Bridge Infrastructure Capital (Midlum) Pty Limited (Note 19)	Australia	100%	50%
Pacific Bridge Cyprus Limited	Cyprus	100%	100%
BIC Europe Limited (Note 19)	Malta	100%	50%

Accounting policy

Subsidiaries are entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is assumed by the Consolidated Entity and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

Australian controlled entities have a June financial year-end. Foreign controlled entities have a December financial year-end. All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

19. BUSINESS COMBINATIONS

On 27 April 2018, the Company acquired the balance of the 50% interest in Bridge Infrastructure Capital Pty Limited (**BICPL**) in consideration of \$1,101. The following companies are the wholly-owned subsidiaries of BICPL:

- (i) Bridge Infrastructure Capital (Midlum) Pty Limited (**BICM**); and
- (ii) BIC Europe Limited (**BICE**).

Assets acquired and liabilities recognised at the date of acquisition

	BICPL	BICM	BICE
	\$	\$	\$
Assets			
Cash and cash equivalents	-	-	25,071
Loans and receivables	-	-	1,115,287
Liabilities			
Payables	-	-	(319,021)
Net assets	<u>-</u>	<u>-</u>	<u>821,337</u>

There was no goodwill arising from acquisition as the net assets of BICE, which was in excess of the consideration paid by the Company to the extent of \$804,156, has been recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Accounting policy

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Consolidated Entity, liabilities incurred by the Consolidated Entity to the former owners of the acquiree and the equity interests issued by the Consolidated Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

20. INVESTMENT IN ASSOCIATE ENTITY

	Ownership Interest		2018	2017
Associate entity incorporated in Australia:	2018	2017	\$	\$
HHY Fund (ASX:HHY)	30.89%	26.46%	2,081,631	2,584,020

HHY is regarded as an Associated Entity as the Company has a greater than 20% interest and is the Investment Manager of HHY. As such, the Company is considered to have 'significant influence' over HHY.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

20. INVESTMENT IN ASSOCIATE ENTITY (continued)

	2018	2017
	\$	\$
Reconciliation of carrying amount:		
Opening balance	2,584,020	2,662,011
Purchase of additional units	258,455	240,000
Share of Associate entity's net loss after tax	(760,844)	(298,555)
Impairment of Associate entity	-	(19,436)
Carrying amount of investment in Associate Entity	2,081,631	2,584,020
Fair value (at market price on ASX) of investment in Associate entity	1,986,611	2,264,697
Net tangible asset backing value of investment in Associate entity	2,109,831	2,584,020
Summarised statement of profit or loss and other comprehensive income		
Revenue	267,144	579,560
Expenses	(2,689,503)	(1,852,677)
Loss from continuing operations before income tax	(2,422,359)	(1,273,117)
Summarised statement of financial position		
Total assets	6,908,734	9,808,489
Total liabilities	(74,573)	(56,914)
Net assets	6,834,161	9,751,575

Accounting policy

Associate entities are entities over which the Consolidated Entity has significant influence but not control or joint control, generally accompanied by a holding of between approximately 20% and 50% of the voting rights in the same. An investment in an Associate entity in the consolidated financial statements is accounted for under the 'equity method' under AASB 128 (Investments in Associates). On initial recognition, an investment in an Associate entity is recognised at cost - for an investment which was classified as fair value through profit or loss, any gains or losses previously recognised are reversed through profit or loss. Under this method, the Consolidated Entity's share of the post-acquisition profits or losses of an Associate entity is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and its share of post-acquisition movements in reserves is recognised in Other Comprehensive Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Dividends or trust distributions from an Associate entity are recognised in the Statement of Profit or Loss and Other Comprehensive Income and in the Statement of Financial Position, they reduce the carrying amount of the investment. When the Consolidated Entity's share of losses in an Associate entity equals or exceeds its interest in the Associate, including any other unsecured long-term receivables, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the Associate.

Where applicable, unrealised gains on transactions between the Consolidated Entity and an Associate entity is eliminated to the extent of the Consolidated Entity's interest in the Associate entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of Associates are aligned to ensure consistency with the policies adopted by the Consolidated Entity, where practicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2018

21. RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Consolidated Entity's KMP for the year ended 30 June 2018. The total remuneration paid to KMP of the Consolidated Entity during the year is as follows:

	2018	2017
	\$	\$
Directors		
Short-term employee benefits	354,999	545,173
Post-employment benefits	33,725	39,473
Equity-based benefits	-	14,269
	<u>388,724</u>	<u>598,915</u>
Other KMP		
Short-term employee benefits	150,000	244,141
Post-employment benefits	-	-
	<u>538,724</u>	<u>843,056</u>

(b) Transactions with Directors

- (i) During the financial year, the Consolidated Entity incurred legal expenses totaling \$25,863 (2017: \$60,147) (excluding GST) with Atanaskovic Hartnell Lawyers (**AH**). Non-Executive Director, Jeremy Kriewaldt, was a Partner in AH until 5 June 2018. AH fees are charged by AH and paid by the Consolidated Entity on an arm's length commercial basis and Mr Kriewaldt was not involved in the Consolidated Entity's decisions concerning engagement of legal services provided by AH.
- (ii) On 23 November 2016, the Company entered into an agreement with Aurora Funds Management Limited (**AFML**) for an AFML employee to provide limited portfolio management services to the Company in respect of the Company's management of the investment portfolio of the HHY Fund (ASX:HHY) (ie. pursuant to the IMA referred to below). The Company's Chairman, John Patton is also the Managing Director and a beneficial owner of AFML. During the financial year, fees of \$18,000 (2017: \$12,000) (excluding GST) have been incurred by the Company in this regard. The arrangement was negotiated and agreement reached on an arms length commercial basis.

(c) Transactions with Associate Entities

- (i) The Company entered into an Investment Management Agreement (**IMA**) (dated 30 June 2016) with AFML (as Responsible Entity/Trustee) for the Company to manage the investment portfolio of the HHY Fund ARSN 112 579 129 (ASX:HHY). During the financial year, the Company earned \$60,170 (2017: \$75,331) (excluding GST) in management fees income under the IMA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

21. RELATED PARTY TRANSACTIONS (continued)

(d) Other Matters

- (i) The Company has engaged a former Director/KMP as a consultant corporate advisor and incurred fees of \$200,000 (excluding GST) under this arrangement during the year. This consultant does not qualify as a KMP under AASB 124 (Related Party Disclosures), being a person having authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity, directly or indirectly.
- (ii) The Company has agreed to advance \$440,000 as loan funds in respect of former Managing Director's (Nicholas Bolton) legal costs incurred in circumstances where Mr Bolton's Director's Deed with the Company provides a procedure for the advancement of monies in this regard. As at balance date, \$440,000 (2017: \$335,608) has been advanced via payments made to Mr Bolton's lawyers. The Board agreed to advance these funds in accordance with the relevant provision of Mr Bolton's Director's Deed and subject also to various terms and conditions agreed with Mr Bolton, including a monetary cap (initially \$400,000 and increased to \$440,000 in March 2018), that advances would be provided only as payment of bills rendered by Mr Bolton's lawyers in relation to the relevant proceedings, that the Company needed to be satisfied that the amount of each legal bill was reasonable, that the Company would have access to Mr Bolton's lawyers to ensure that it was promptly informed of any material developments in relation to the proceedings and otherwise to enable the Company to assess the likely outcome of those proceedings, that Mr Bolton would be obliged to repay any amounts advanced in various circumstances specified in his Director's Deed including in any situation in which Mr Bolton is not entitled to be indemnified or advanced those costs, and a provision for review of the position once the outcome of the relevant proceeding is known, including the repayment of all or a portion of the advance (as appropriate).

22. AUDITORS' REMUNERATION

During the year, the following fees were paid or payable for services provided by the Auditor of the parent entity, the Auditor's related practices and other non-related audit firms (as applicable):

	2018	2017
	\$	\$
Deloitte Touche Tohmatsu		
Audit and review of financial statements		
Current year fees	94,000	45,000
Additional fees in respect of the prior year	210,000	206,875
Tax services	-	6,200
Other payments - disbursements	18,599	13,170
	322,599	271,245

23. LOAN COMMITMENTS

The Consolidated Entity does not have any loan commitments (30 June 2017: Nil).

24. CONTINGENCIES

The Consolidated Entity does not have any material contingent assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

25. EVENTS OCCURRING AFTER THE REPORTING PERIOD

- (a) The Directors have declared payment of a 0.50 cent per share fully-franked dividend at a total cost of \$790,402. The Company's Dividend Reinvestment Plan continues to be suspended. The record date for determining entitlements is 21 September 2018 with payment expected to be made on or about 28 September 2018. The Company's Dividend Reinvestment Plan will not apply to this dividend.

No other matter or circumstance has arisen since the end of the financial year that significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

- (1) The financial statements, comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, and accompanying notes as set out on pages 40 to 76 are in accordance with the *Corporations Act 2001 (Cth)* and:
 - (a) comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting; and
 - (b) give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of their performance for the year ended on that date;
- (2) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (3) The Directors have been given the declarations required by section 295A of the *Corporations Act 2001 (Cth)* by the Chairman (the person who, in the opinion of the Directors, performs the Chief Executive Officer function) and Company Secretary (the person who, in the opinion of the Directors, performs the Chief Financial Officer function); and
- (4) The Company has included in the notes to the Financial Statements an explicit and unreserved statement of compliance with the International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001 (Cth)*.



John Patton
Chairman



Simon Cato
Non-Executive Director and
Chairman of Audit, Finance and Risk Committee

31 August 2018

Independent Auditor's Report to the Members of Keybridge Capital Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Keybridge Capital Limited (the "Company") and its subsidiaries (the "Consolidated Entity") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Consolidated Entity is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Loans and receivables As at 30 June 2018 the carrying value of loans and receivables were \$5.40m, net of allowances for impairment losses of \$10.68m as disclosed in Note 9. The assessment of the recoverable value of these loans and receivables requires significant judgement in respect of assumptions such as making estimates of interest and principal repayments and the recoverability of loans, on a specific basis.	Our procedures included, but were not limited to: • Evaluating the key controls management have in place in relation to the estimate of the recoverable value of loans; • Challenging the assumptions and methodology used to determine the specific allowances; • Evaluating recoverability of loans based on expected future cash inflows, such as estimate of interest and principal repayments from loans; and • Assessing the appropriateness of the disclosures in Note 9 to the financial statements.
Financial assets designated at fair value through profit or loss As at 30 June 2018, financial assets designated as fair value through profit or loss were valued at \$7.28m, as disclosed in Note 8. Included within this balance is an investment in Molopo Energy Limited ("MPO") valued at \$1.19m. Significant judgement is involved in estimating the fair value of this instrument.	In conjunction with our internal valuations experts, our procedures included, but were not limited to: • Assessing management's estimations and judgements adopted; • Ensuring that the accounting treatment was in compliance with the applicable accounting standards; • Reviewing legal correspondence and regulatory announcements on MPO related matters and considering the impact on the management assumptions used in calculating MPO's fair value; and • Assessing the appropriateness of the disclosures in Notes 8 and 11 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Consolidated Entity's annual report (but does not include the financial report and our auditor's report thereon): Preliminary Final Report, Results for Announcement to the Market and Securities Information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Preliminary Final Report, Results for Announcement to the Market and Securities Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Consolidated Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Entity.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 35 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Keybridge Capital Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

A blue ink signature, likely of Ian Skelton, written over a circular blue stamp or seal.

Ian Skelton

Partner

Chartered Accountants

Perth, 31 August 2018

SECURITIES INFORMATION

as at 30 June 2018

SECURITIES ON ISSUE

Class of Security	Quoted on ASX	Unlisted
Fully paid ordinary shares (ASX:KBC)	158,080,432	-
Executive Share Plan shares ⁷¹	-	9,000,000
Convertible Redeemable Promissory Notes (ASX:KBCPA) ⁷²	4,401,047	-

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder	Registered Shareholder	Number of Shares held	%Voting Power ⁽⁵⁾ (as at 30 June 2018)
Australian Style Group Pty Ltd	Australian Style Group Pty Ltd	33,608,425	22.53% ⁽¹⁾
	BNP Paribas Nominees Pty Ltd	2,012,267	
Wilson Asset Management Group (WAM Capital Limited (ASX:WAM) WAM Active Limited (ASX:WAA) Wilson Asset Management Equity Fund)	HSBC Custody Nominees (Australia) Limited	33,117,623	20.95% ⁽²⁾
Bentley Capital Limited (ASX:BEL)	Bentley Capital Limited	15,850,000	20.05% ⁽³⁾
	Scarborough Equities Pty Ltd	15,850,000	
Orion Equities Limited (ASX:OEQ)	Bentley Capital Limited	15,850,000	20.05% ⁽⁴⁾
	Scarborough Equities Pty Ltd	15,850,000	
Queste Communications Ltd (ASX:QUE)	Bentley Capital Limited	15,850,000	20.05% ⁽⁴⁾
	Scarborough Equities Pty Ltd	15,850,000	

Notes:

- (1) Based on the Change of Substantial Holder Notice lodged by Australian Style Group Pty Ltd dated 24 March 2014 (updated to reflect current registered shareholdings and percentage voting power)
- (2) Based on the Change of Substantial Holder Notice lodged by Wilson Asset Management Group dated 14 May 2018
- (3) Based on the Change of Substantial Holder Notice lodged by BEL dated 23 October 2017 (updated to reflect current percentage voting power)
- (4) Based on the Change of Substantial Holder Notice lodged by QUE and OEQ dated 8 July 2016 (updated to reflect current percentage voting power)
- (5) Movements of less than 1% in voting power are not required to be disclosed to ASX via an updated substantial shareholding notice and accordingly, there may be variances between the shareholdings recorded in the table above and the most recent substantial shareholding notices lodged on ASX. Current registered shareholdings have been disclosed (where applicable).

⁷¹ Issued on 10 December 2014 (refer KBC's ASX Announcement dated 19 December 2014: Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares) after receipt of shareholder approval at an annual general meeting held on 28 November 2014 (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)

⁷² Keybridge issued Convertible Redeemable Promissory Notes on 30 June 2015 (refer KBC's ASX Announcement dated 18 June 2015: Appendix 3B) after receipt of shareholder approval on 28 November 2014 (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). 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). Further details are in Note 8 of the accompanying financial statements and in the CRPN Prospectus (dated 17 June 2015) and ATO Class Ruling CR 2015/54.

SECURITIES INFORMATION

as at 30 June 2018

DISTRIBUTION OF LISTED CONVERTIBLE REDEEMABLE PREFERENCE NOTES

Spread of Holdings	Number of Holders	Number of Notes	% of Total Issued Notes
1 - 1,000	734	137,369	3.12%
1,001 - 5,000	66	142,983	3.25%
5,001 - 10,000	20	142,639	3.24%
10,001 - 100,000	35	1,228,115	27.91%
100,001 - and over	4	2,749,941	62.48%
TOTAL	859	4,401,047	100%

TOP TWENTY LISTED CONVERTIBLE REDEEMABLE PREFERENCE NOTEHOLDERS

Rank	Registered Noteholder	Total Notes Held	% Total Issued Notes
1	J P Morgan Nominees Australia Limited	1,288,804	29.28%
2	BNP Paribas Nominees Pty Ltd	1,155,028	26.24%
3	Marko Nominees Pty Ltd	180,859	4.11%
4	PW and VJ Cooper Pty Limited	125,250	2.85%
5	Mr Jinxiang Lu	100,000	2.27%
6	Mr Milton Yannis	85,590	1.94%
7	Nambia Pty Ltd	82,368	1.87%
8	Mrs Cuixian Wang	77,000	1.75%
9	G Chan Pension Pty Limited	63,810	1.45%
10	Bond Street Custodians Limited <MDR - PK0162 A/C>	55,840	1.27%
11	Mr Craig Anthony Turton	51,630	1.17%
12	Mr Colin John Vaughan + Mrs Robin Vaughan	50,000	1.14%
13	Freshmo Investments Pty Ltd	41,200	0.94%
14	Mr Yee Teck Teo	35,245	0.80%
15	Denald Nominees Pty Ltd	33,333	0.76%
16	HSBC Custody Nominees (Australia) Limited-GSCO ECA	32,250	0.73%
17	Australian Style Holdings Pty Ltd <NFJB Superfund A/C>	31,414	0.71%
18	Mr Gregory Dyer + Mrs Deborah Dyer	31,080	0.71%
19	Mr Anthony Geoffrey Hartnell	30,573	0.69%
20	Mr Vittorio Siciliano + Mrs Gina Siciliano	30,250	0.69%
TOTAL		3,581,524	81.37%

SECURITIES INFORMATION

as at 30 June 2018

DISTRIBUTION OF LISTED ORDINARY SHARES

Spread of Holdings	Number of Holders	Number of Shares	% of Total Issued Capital
1 - 1,000	43	7,662	0.00%
1,001 - 5,000	167	598,574	0.38%
5,001 - 10,000	143	1,119,316	0.71%
10,001 - 100,000	251	8,973,968	5.68%
100,001 - and over	65	147,380,912	93.23%
TOTAL	669	158,080,432	100%

UNMARKETABLE PARCELS

Spread of Holdings	Number of Holders	Number of Shares	% of Total Issued Capital
1 - 6,250	242	788,532	0.50%
6,251 - over	427	157,291,900	99.50%
TOTAL	669	158,080,432	100.00%

An unmarketable parcel is considered, for the purposes of the above table, to be a shareholding of 6,250 shares or less, being a value of \$500 or less in total, based upon the Company's last sale price on ASX as at 30 June 2018 of \$0.08 per share.

TOP TWENTY LISTED ORDINARY FULLY PAID SHAREHOLDERS

Rank	Registered Shareholder	Shares Held	Total Shares Held	% Issued Capital
1	HSBC Custody Nominees (Australia) Limited	34,314,569		
	HSBC Custody Nominees (Australia) Limited - GSCO ECA	5,625,000		
		Sub-total	39,939,569	25.27%
2	Australian Style Group Pty Ltd		33,608,425	21.27%
3	Bentley Capital Limited		15,850,000	10.03%
4	Scarborough Equities Pty Ltd		15,850,000	10.03%
5	J P Morgan Nominees Australia Limited		6,850,005	4.33%
6	Cowoso Capital Pty Ltd		4,694,815	2.97%
7	Mr Nicholas Bolton	2,833,017		
	Mr Nicholas Bolton + Mr John Bolton <NFJB Superfund A/C>	325,000		
	Australian Style Holdings Pty Ltd <NFJB Superfund A/C>	492,100		
		Sub-total	3,650,117	2.51%
8	BNP Paribas Nominees Pty Ltd		3,361,976	2.13%
9	Mr Patrick Martin Burroughs		2,000,000	1.27%
10	Dean Whitestone Pty Limited		2,000,000	1.27%
11	Denald Nominees Pty Ltd		1,200,000	0.76%
12	Mr Colin John Vaughan + Mrs Robin Vaughan		1,030,811	0.65%
13	Mr Keith Danby Lucas		1,000,000	0.63%
14	APPWAM Pty Ltd		1,000,000	0.63%
15	Trafalgar Street Nominees Pty Ltd		909,091	0.58%
16	GSK Enterprises Pty Ltd		725,000	0.46%
17	Mr Peter Howells		699,287	0.44%
18	CVC Limited		640,000	0.40%
19	Mr Yee Teck Teo		604,283	0.38%
20	Tadmaro Pty Limited		590,800	0.27%
TOTAL			136,204,179	86.28%