

## **Circular to Gympie Gold Group Stakeholders**

**9 February 2005**

### **Introduction and Background Information**

- The main group companies were wound up by resolutions of meetings of their creditors held on 28 July 2004;
- The Receivers and Managers (Messrs Love, Geroff & Lewis of Ferrier Hodgson) remain in control of the group's assets as they have done since their appointment on 30 December 2003;
- The main group companies are:
  - Gympie Gold Limited ("GGL")
  - Gympie Eldorado Gold Mine Pty Limited ("GEGM")
  - Southland Mining Pty Limited ("Southland")
  - Southland Coal Pty Limited ("Southland Coal")

### **Current Status**

- The Receivers have sold the group's gold and coal assets but the proceeds of those sales will not be sufficient to repay in full the first ranking secured creditors.
- The Receivers are therefore also pursuing a claim against Southland's insurers in relation to the loss at the Southland colliery arising from the fire at the colliery in December 2003.
- At this stage, it remains to be seen whether there will be any surplus assets after paying the first ranking secured creditors in full.
- In the event the first ranking secured creditors' claim is satisfied in full from the insurance proceeds, due to the claims of the second ranking secured creditors it remains uncertain whether there will be any funds available for unsecured creditors (including noteholders).
- As such, ordinary shares held in Gympie are most likely valueless, however, their status for tax purposes cannot be confirmed until the possibility of selling the company shell is finally determined, which we hope will be within the next few weeks and well before the end of the current financial year ending 30 June 2005.

### **Sale of the group's gold assets**

On 13 August 2004, the consortium of priority ranking secured creditors entered into an agreement with the Receivers and Managers for the purchase of the GEGM operations for a consideration of \$5.5M cash and up to an estimated \$3.9M in assumed liabilities. Settlement was achieved on this contract on Friday 29 October.

In light of the related nature of the purchaser, we reviewed the valuations of GEGM obtained by the Receivers and Managers. While an initial report valued the mine at a higher value range, a subsequent report downgraded this estimate to a range supporting the purchase consideration. The valuers note the deterioration in value was driven by a combination of factors, including:

- A deterioration in market conditions (both smaller mining equity markets and US\$ commodity markets);
- Reduced appetite for equity raisings, IPOs and capital raisings in the junior mining and exploration sector who would be the most logical purchasers for such an asset; and
- The initial positive general market impression of GEGM not being supported by the reality of its operations, as discovered by interested parties on due diligence.

On the basis of a limited review of these reports, I am not aware of any specific factors which would lead me to believe the sale to the secured creditors to have been made at an undervalue.

### **Sale of the group's coal assets**

On 11 October 2004, the Receivers and Managers announced execution of contracts for the sale of the Southland colliery operations. While the Receivers and Managers have not disclosed the price, Chinese and mining press articles have indicated the sale price to Yanzhou Coal Mining to be around \$32M payable on a staged basis. The Receivers and Managers have confirmed this transaction settled on 24 December 2004 with the first tranche of the sale price having been received on this date.

### **Southland colliery insurance claim**

As the realisation of the group's gold and coal assets has not been sufficient to pay in full the claim of the first ranking secured creditors, the Receivers and Managers are continuing to pursue the insurance claim in relation to the Southland colliery and are relying on the proceeds of recovery to pay the current estimated shortfall of \$18.7M. It is my understanding that the investigation and resulting insurance claim has proceeded as follows:

- Initial physical investigation and work to re-enter and rehabilitate the mine;
- Following a secondary fire, determination that the mine could not be re-entered and should be placed under care and maintenance;
- Subsequent detailed investigation and expert analysis to determine that the mine is a total loss to Southland;
- Considerable and lengthy dialogue with the group's insurers regarding a claim lodged by the Receivers and Managers and Thiess as co-insured;

- Detailed negotiation and supply of substantial information in support of the claim;
- To date, the insurers have not admitted liability and the claim would appear to require legal proceedings to be taken to enable a recovery by the group.

It is my understanding that the insurance claim is in the vicinity of \$34M. As this is the major remaining asset of Southland, the Receivers and Managers have commenced a process of undertaking Receivers' examinations of QBE and its experts. Unless the claim is resolved shortly then it is likely the Receivers and Managers will need to commence legal proceedings against the insurers to seek recovery of the loss under the policy of insurance. Complex litigation of this nature is likely to take a lengthy period of time before the matter would be heard and any judgement obtained (leaving aside rights of appeal).

It is likely that the Receivers will enter into a formal litigation funding arrangement in order to meet the costs of litigation. In the event the litigation is successful, a percentage of the recoveries will be payable to the litigation funder in consideration for providing the funding and being on risk for the costs of litigation.

### **Sale of the company shell**

There is a market for listed shells of companies which have been in the various forms of insolvency administration. While there are considerable costs involved and the likely value to individual stakeholder groups would be relatively small, we have held various discussions with the Receivers and Managers and interested parties in relation to the potential sale of the listed company shell.

In return for supporting the sale, the first ranking secured creditor consortium has asked for a proportion of any sale proceeds in accordance with its security, in addition to repayment of amounts paid to the Administrators/Liquidators to date as previously agreed with the Administrators / Liquidators. The first indicative offer received was too low to render the sale of the shell financially viable. The interested party has since increased the offer price, but further negotiations with the Receivers and Managers as to the quantum of the payment to the secured creditor will be required before a sale proposal could progress any further. To achieve a sale of the listed shell, creditor approval for a deed of company arrangement and also shareholder approval would be required. The value to creditors of such an arrangement will be minimal, accordingly its viability requires further assessment.

If a proposal supported by the Receivers and Managers is received, then I will provide it to the creditors' committees of inspection for comment and discussion.

### **Possible returns to creditors including noteholders**

At this stage, the Receivers and Managers have realised the majority of the group's physical assets and there is a shortfall to the first ranking secured creditors after trading, investigation and Receivers' costs. The value of the group's insurance claim remains uncertain and the first ranking secured creditors are relying upon those proceeds and/or the balance of the Southland Colliery sale proceeds to pay their current shortfall of \$18.7M together with any costs required to effect the insurance recovery. The legal, expert and Receivers' costs of pursuing the insurance recovery of this complex claim may well be substantial and are estimated to be in excess of \$1M. Should there be any surplus after payment of the first ranking secured creditors' claims and costs in full, then funds will become available for other creditors. There are likely to be issues regarding the marshalling (as between the various group companies) and entitlement to any surplus funds as between second ranking secured creditors and

other creditors. This will depend upon where the surplus funds lie within the group. Also both the second ranking secured creditors' and unsecured creditors' claims would need to be confirmed. Currently, the second ranking secured creditors claims total in the vicinity of \$26M and unsecured claims in the vicinity of \$70M. If there are any surplus funds after the secured creditors' claims in individual companies then they would become available for unsecured creditors. At this stage, it remains very uncertain whether any funds will become available for unsecured creditors including noteholders in the company.

### **Possible return to shareholders**

In the present circumstances, shares in Gympie are most likely valueless. However, as noted above, the Receivers and I have discussed the possibility of selling the company shell which would potentially see it re-list although a very diluted form for existing shareholders. Until that possibility is exhausted, I cannot make the declaration required to allow Australian domiciled shareholders to claim any available capital losses.

If a recapitalisation proposal is not viable within the next few weeks then I intend to post the required declaration for shareholders to claim the loss on the Gympie website [www.gympiegold.com.au](http://www.gympiegold.com.au).

Shareholders should take their own independent tax advice in relation to any taxation implications applicable to them.

### **Committees of Inspection**

At the creditors meeting held on 28 July 2004, representatives of creditors were elected to act as members of committees of inspection for the main group companies. Since the commencement of the liquidations, I have had periodic communication with committee members regarding the progress of the receivership and liquidations. It is my intention to discuss the proposed sale of the company shell with the creditors' committee if the Receivers indicate there is a proposal that the first ranking secured creditors will support. Given the relatively small value to be obtained and the need to obtain both GGL creditor and shareholder approval, if the creditors' committee is not prepared to support a proposed sale of the company shell then I may well abandon that course of action.

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Should creditors require any further clarification, please contact either Nick Lawry or Chania Rodwell of this office.

Yours faithfully



M C Smith  
*Liquidator*