RCR Tomlinson Limited (ACN 008 898 486) and certain wholly owned subsidiaries listed at Appendix A (Administrators Appointed to all) (Together, “RCR Group” or “RCR” or “Companies”)

Administrators’ report to creditors pursuant to section 75-225 of Insolvency Practice Rules (Corporations) 2016

19 March 2019
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## Report Glossary

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</thead>
<tbody>
<tr>
<td>the Administrators</td>
<td>Jason Preston, Jamie Harris, Matthew Caddy and Rob Brauer of McGrathNicol</td>
</tr>
<tr>
<td>the Administrators’ Report or this Report</td>
<td>Report to creditors prepared by the Administrators, pursuant to section 75-225 of Insolvency Practice Rules (Corporations) 2016, dated 19 March 2019</td>
</tr>
<tr>
<td>the Act</td>
<td>Corporations Act 2001 (Cth)</td>
</tr>
<tr>
<td>AEDT</td>
<td>Australian Eastern Daylight Savings Time</td>
</tr>
<tr>
<td>AEMO</td>
<td>Australian Energy Market Operator</td>
</tr>
<tr>
<td>AWST</td>
<td>Australian Western Standard Time</td>
</tr>
<tr>
<td>the Appointment or Appointment Date</td>
<td>The appointment of the Administrators on 21 November 2018</td>
</tr>
<tr>
<td>ARITA</td>
<td>Australian Restructuring, Insolvency and Turnaround Association</td>
</tr>
<tr>
<td>ASA</td>
<td>Asset Sale Agreement</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
</tr>
<tr>
<td>ASX</td>
<td>Australian Securities Exchange</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>Board</td>
<td>Board of Directors of RCR</td>
</tr>
<tr>
<td>CBA</td>
<td>Commonwealth Bank of Australia</td>
</tr>
<tr>
<td>CEO/Interim CEO</td>
<td>Chief Executive Officer, Paul Dalgleish (until 7 August 2018), Bruce James (from 7 August 2018 to Appointment)</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer, Andrew Phipps (until 7 November 2018), Andrew Batch (from 7 November 2018 to Appointment)</td>
</tr>
<tr>
<td>COI</td>
<td>Committee of Inspection</td>
</tr>
<tr>
<td>COO</td>
<td>Chief Operating Officer, Conal McCullough</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>Darryl Edwards (RCR Tomlinson Ltd and RCReate Pty Ltd) and Kym Lowe (all other entities)</td>
</tr>
<tr>
<td>the Court</td>
<td>Supreme Court of New South Wales</td>
</tr>
<tr>
<td>Current Directors or Directors</td>
<td>Roderick Brown, Bruce James, Lloyd Jones, Susan Palmer and David Robinson</td>
</tr>
<tr>
<td>Deed of Cross Guarantee</td>
<td>Deed of Cross Guarantee dated 22 June 2011 pursuant to ASIC Class Order 98/1418</td>
</tr>
<tr>
<td>DIRRI</td>
<td>Declaration of Independence, Relevant Relationships and Indemnities</td>
</tr>
<tr>
<td>DOCA</td>
<td>Deed of Company Arrangement</td>
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<tr>
<td>EPC Contracts</td>
<td>Engineering, Procurement and Construction contracts</td>
</tr>
<tr>
<td>FEG</td>
<td>Commonwealth Government Fair Entitlements Guarantee Scheme</td>
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<tr>
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<td>The first meetings of creditors held on 3 December 2018</td>
</tr>
<tr>
<td>Former Directors</td>
<td>Paul Dalgleish, Eva Skira and David Dippie</td>
</tr>
<tr>
<td>Funding Facility</td>
<td>Finance facility entered into by the Administrators with CBA to fund ongoing trading operations following the Appointment</td>
</tr>
<tr>
<td>FY16</td>
<td>Financial year ended 30 June 2016</td>
</tr>
<tr>
<td>FY17</td>
<td>Financial year ended 30 June 2017</td>
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<tr>
<td>FY18</td>
<td>Financial year ended 30 June 2018</td>
</tr>
<tr>
<td>FY19</td>
<td>Financial year ending 30 June 2019</td>
</tr>
<tr>
<td>IPR</td>
<td>Insolvency Practice Rules (Corporations) 2016</td>
</tr>
<tr>
<td>Management</td>
<td>The RCR Group’s executive management team and key employees</td>
</tr>
<tr>
<td>MOFA</td>
<td>Multi-Option Facility Agreement</td>
</tr>
<tr>
<td>the NZ Administrators</td>
<td>Conor McElhinney and Andrew Grenfell, both partners of McGrathNicol New Zealand</td>
</tr>
<tr>
<td>O&amp;M Contracts</td>
<td>Operation and Maintenance contracts</td>
</tr>
<tr>
<td>the Perth meetings</td>
<td>The Second Meetings of Creditors for RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd), to be held at Ballroom B, Duxton Hotel, 1 St Georges Terrace, Perth WA 6000 at 1.00pm AWST on 26 March 2019</td>
</tr>
<tr>
<td>PMSI</td>
<td>Purchase Money Security Interest</td>
</tr>
<tr>
<td>PPSR</td>
<td>Personal Property Securities Register</td>
</tr>
<tr>
<td>Investor Presentation</td>
<td>Project Update and Capital Raising Investor Presentation dated 28 August 2018</td>
</tr>
<tr>
<td>Prospectus</td>
<td>Prospectus dated 28 August 2018 released in relation to the 2018 Capital Raise</td>
</tr>
<tr>
<td>the RCR Group or “the Group” or “the Companies” or “RCR”</td>
<td>The entities over which the Administrators are appointed, refer list at Appendix A</td>
</tr>
<tr>
<td>Relation back day</td>
<td>The date the External Administrators were appointed, being 21 November 2018</td>
</tr>
<tr>
<td>ROCAP</td>
<td>Report on Company Activities and Property</td>
</tr>
<tr>
<td>Second Meetings of Creditors</td>
<td>The second meetings of creditors to be held on Tuesday, 26 March 2019, refer section 15 for details</td>
</tr>
<tr>
<td>Secured Creditors</td>
<td>Commonwealth Bank of Australia, HCC International Insurance Company, MUFG Bank, Ltd (formerly known as The Bank of Tokyo-Mitsubishi UFJ Ltd), Swiss Re International SE Singapore Branch and Chubb Insurance Australia Ltd</td>
</tr>
<tr>
<td>SFA</td>
<td>Syndicated Facility Agreement</td>
</tr>
<tr>
<td>the Sydney meetings</td>
<td>The Second Meetings of Creditors for all entities within the RCR Group (except for RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd), to be held at The Lyceum, Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000 at 1pm AEDT on 26 March 2019</td>
</tr>
<tr>
<td>U&amp;M</td>
<td>Upgrades and Maintenance business unit</td>
</tr>
<tr>
<td>YTD</td>
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Executive summary

This section provides Creditors with answers to key questions they may have in relation to the administration, the Administrators’ findings and other contents of this Report.

1.1 Key questions and answers

What is the purpose of this report?

This report provides creditors with details of the business, property, affairs and financial circumstances of the RCR Group in preparation for the forthcoming Second Meetings of Creditors to be held on 26 March 2019.

This Report also informs creditors about the investigations undertaken by the Administrators and the Administrators’ opinion and recommendation on each of the options available to creditors to vote on at the Second Meetings of Creditors.

What are the Second Meetings of Creditors?

The purpose of Second Meetings of Creditors are for creditors to decide the future of the RCR Group.

The options available for Creditors to vote on are whether the RCR Group entities should be returned to the control of the Directors or enter into liquidation. The Administrators note that, as at the date of this Report, no Deed of Company Arrangement (DOCA) has been proposed and, consequently, the option for any of the RCR Group entities to enter into a DOCA is not available.

Where and when are the Second Meetings of Creditors?

The Second Meetings of Creditors will be held on Tuesday, 26 March 2019. The meetings will be held in two locations, as follows:

- **Perth meetings**: for creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd); and

- **Sydney meetings**: for creditors of all other entities within the Group.

For the avoidance of doubt, the Perth meetings are being convened for the creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) only.

If you are a creditor of any other entity listed at Appendix A (which will be the large majority of creditors), the relevant meeting for you to attend is the Sydney meeting. Creditors who are unable to attend the Sydney meetings in person may also view via webcast, subject to providing the required documentation in advance of the meetings.

Observers are able to attend either meeting, however will not be entitled to participate, either by voting or by asking questions.

Refer section 15 for details of the times and locations of each meeting, as well as further information regarding the webcast for the Sydney meetings.

What is the RCR Group and what did the RCR Group do?

The RCR Group is an engineering and infrastructure company, with its head office in Sydney and operations located across Australia, New Zealand and South East Asia, under three key divisions, infrastructure, energy and resources.

What is the structure of the RCR Group?

The corporate structure for the RCR Group at the Appointment Date includes an ASX listed head company, 41 wholly owned Australian subsidiaries, three wholly owned subsidiaries incorporated in New Zealand and five subsidiaries incorporated across South East Asia.
What is the status of the RCR Group?

On 21 November 2018, Jason Preston, Jamie Harris, Matthew Caddy and Rob Brauer were appointed Administrators of 41 of the Australian entities (including the ASX listed head company) within the RCR Group. This means that the RCR Group are in voluntary administration, which is a type of formal insolvency appointment.

Who controls the RCR Group now?

From the date of the Appointment, the Administrators have had responsibility for the day-to-day management of the entities within the RCR Group.

What were the key events leading to the appointment of Administrators?

In the months leading up to the Appointment, the following key events occurred:

- On 27 July 2018, the Board of RCR became aware of significant cost overruns on two of the major solar farm projects, leading it to place RCR’s shares into voluntary suspension.
- An internal investigation was performed in order to understand the reasons for the cost overruns, as well as why they had not been uncovered at an earlier date.
- In response to the solar farm cost overruns, RCR raised $100 million by way of a Capital Raise, with trade in its shares resuming on 28 August 2018 and funds being received in September 2018.
- Further cost overruns occurred on other solar farm projects, together with milestone payment delays and pipeline work not eventuating, leading to a significant decrease in RCR’s cash position.
- RCR requested further funding from its secured lenders, however this request was declined and RCR’s available facility headroom was withdrawn on 21 November 2018.

What actions have the Administrators taken to date?

Since the Appointment Date, the Administrators and their staff have attended to the following:

- an appraisal of each of the business units within the RCR Group to determine viability and saleability, with certain business units (predominantly in relation to RCR’s solar contracts) being closed;
- management of the ongoing trade and cash flow of the other business units while undertaking a sale of business process on a going concern basis;
- liaising with employees and unions, and calculating employee entitlements;
- negotiating sale of business agreements in relation to business units where going concern sales could be achieved, then managing completion and transition processes;
- conducting preliminary investigations into the affairs of the RCR Group; and
- statutory obligations, including preparing reports for and convening meetings of creditors and meetings of the committees of inspection.
What was the sale process that the Administrators undertook and what was the outcome?

The Administrators’ initial strategy was to achieve a whole of business sale (excluding the solar business). However, despite a number of positive initial enquiries, it became clear at the end of December 2018 that no party was in a position to enter into a transaction comprising the whole of business.

The Administrators have since executed seven business and asset sale transactions and completed six of them, each comprising individual business units or a combination of business units.

What operations and/or businesses were not sold, and instead wound down by the Administrators?

The wind down of the solar business unit commenced immediately on Appointment. The Haden Property Services business (excluding Tasmanian and Mount Gambier operations), the Water East business and the Energy Projects business were wound down following unsuccessful sale campaigns.

Why do the current and former Directors of the RCR Group believe it became insolvent?

The Directors believe the RCR Group failed due to the Secured Creditors refusal to extend the Group’s facilities, the non-waiver of a potential breach of financial covenants under the SFA and the withdrawal of overdraft facilities by the CBA on 21 November 2018, refer section 7.1.

Why do the Administrators believe the RCR Group became insolvent?

Based on preliminary investigations, the Administrators are of the view that the following key issues and events contributed to the insolvency of RCR and the subsequent appointment of Administrators:

- RCR entered into fifteen solar related EPC Contracts, with a total value of approximately $1.5 billion within an eighteen month time period. This introduced a significantly different risk profile into the Group, without any noticeable change in the Group’s governance or risk management process.

- Various solar contracts experienced timing delays and cost overruns, the most significant being those experienced on Project Gretel, as discussed in section 7.2.2.3.

- Once the Project Gretel cost overruns were uncovered, the shares in RCR Tomlinson went into voluntary suspension for a period of 30 days, which had a significant adverse impact on the reputation of the Group and its ability to successfully tender for new projects (in solar and other business units), as discussed in section 7.2.3.

- The RCR Board announced the 2018 Capital Raise in order to fund the Project Gretel cost overruns, and raise additional working capital, as discussed in section 3.9.4.

- Following the successful 2018 Capital Raise, the cash flow position and forecast continued to deteriorate as solar milestone payments were delayed, further solar cost overruns occurred and pipeline projects failed to eventuate (discussed further below).

- Further cost overruns and lower than forecast receipts led to RCR stretching payment of its creditors. Additional funding was immediately requested from its lenders and ultimately declined.

Refer section 7.1 for further details.
### What was the date of insolvency?

Based on the Administrators’ preliminary investigations (refer section 8), the Administrators consider that RCR was certainly insolvent at the Appointment Date, immediately after the Secured Creditors declined the Board’s funding request and withdrew the available headroom under its existing finance facility and may have become insolvent prior to the end of October 2018 (or possibly earlier).

A liquidator (if appointed) will undertake additional work to confirm the exact date that RCR became insolvent.

### What claims have the Administrators identified that may be available to a Liquidator?

Potential claims available to a liquidator include (among others) insolvent trading, antecedent transactions and breach of director’s duties.

Whilst the Administrators have considered the underlying causes of RCR’s failure, their investigations into claims arising from those matters are at an early stage. Section 8 outlines the status of the Administrators’ investigations to date.

### Has a DOCA been proposed?

At the date of this Report, no DOCA has been proposed and, based on information presently available to the Administrators, a DOCA proposal is unlikely to be received.

### Will the Secured Creditors be repaid their debt?

It is anticipated that there will be a deficiency to the Secured Creditors of between $69.5 million (high case scenario) and $151.0 million (low case scenario), refer section 9.2.

### Will employees be paid their outstanding entitlements?

Priority Creditors (i.e. employees) rank ahead of secured and unsecured Creditors for dividend purposes against the net proceeds of realisation from circulating assets of their employing entity. Circulating assets are assets which are continually changing within the business such as stock, work in progress and debtors.

Certain entities within the RCR Group will realise sufficient circulating assets to provide a dividend to employees (in full or in part), whereas others will not. The characterisation of assets and the associated costs of realising these assets as circulating and non-circulating is complex. The Administrators are continuing to take advice on this and may require court directions to make a final determination.

Employees are likely to receive an initial distribution through FEG, which will make payment on some of the main categories of employee entitlements, subject to certain criteria and value caps. Employees whose entitlements are not paid in full by FEG may receive an additional payment based on circulating asset recoveries in their employing entity.

Employees should refer to Appendix F for the estimated outcome for their employing entity.

### Will unsecured creditors be paid a dividend?

Due to the quantum of the forecast deficiency to the Secured Creditors, it is probable that there will be no distribution paid to unsecured creditors.
<table>
<thead>
<tr>
<th>What do the Administrators recommend Creditors vote for at the Second Meeting of Creditors and why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Administrators recommend creditors vote in favour of the RCR Group entering creditors’ voluntary liquidation. No DOCA has presently been proposed so, therefore, this option is not available for creditors to vote on. Noting that the majority of the businesses within the RCR Group have been sold or ceased to trade and the RCR Group remains insolvent, it would not be appropriate for control of the RCR Group to be returned to the Directors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Where I can get more information?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors requiring further information should please refer to the McGrathNicol website <a href="http://www.mcgrathnicol.com/creditors/rcr-group">www.mcgrathnicol.com/creditors/rcr-group</a> or email <a href="mailto:rcrtomgeneral@mcgrathnicol.com">rcrtomgeneral@mcgrathnicol.com</a></td>
</tr>
</tbody>
</table>
2 Introduction

This section outlines the details regarding the Administrators’ appointment, the details of the First and Second Meetings of Creditors and the purpose and content of this Report.

2.1 Appointment

Jason Preston, Jamie Harris, Matthew Caddy and Rob Brauer (Administrators) were appointed joint and several Voluntary Administrators of the entities listed at Appendix A (collectively, RCR Group or RCR or Companies) on 21 November 2018 (Appointment Date or the Appointment) by resolution of the Board, pursuant to Section 436A of the Corporations Act 2001 (Act).

2.2 Objective of administration

In an administration, administrators are empowered by the Act to assume control of an insolvent company, superseding the powers of the company’s directors and officers, to manage the company’s affairs and deal with its assets in the interests of its creditors.

The objective of an administration is to maximise the prospects of a company continuing in existence (in whole or in part) or if that is not possible, to achieve better returns to creditors than would be achieved by its immediate liquidation.

During an administration there is a moratorium (i.e. freeze) over most pre-administration creditor claims.

Administrators are required to investigate the company’s affairs and report to creditors on the administrator’s opinion as to which outcome of the administration process is in the creditors’ best interests in order to inform and assist creditors prior to voting at the second meeting.

2.3 First meetings of creditors

Section 436E of the Act requires the Administrators to convene a first meeting of creditors within eight business days of being appointed.

The first meetings of creditors of RCR were held on 3 December 2018 (First Meetings of Creditors), at which there were no nominations to appoint an alternative administrator for any of the Companies.

Creditors resolved at the First Meetings of Creditors to appoint a Committee of Inspection (COI) (refer section 14) to the RCR entities that are part of the Deed of Cross Guarantee. Details of the members of the COI are available in the minutes of the First Meetings of Creditors.

Since their appointment, the Administrators have convened two meetings of the COI (1 February 2019 and 13 March 2019). Minutes of the 1 February 2019 meeting have been filed with the Australian Securities and Investments Commission (ASIC) and are available on the McGrathNicol website (refer section 16). Minutes of the 13 March 2019 meeting will be filed with ASIC, and available on the McGrathNicol website shortly after the date of this Report.

2.4 Extension of convening period

Section 439A of the Act requires the Administrators to convene a second meeting of creditors within 20 business days (or 25 business days in certain circumstances) of being appointed. This is referred to as the “convening period”. The second meeting of creditors is to be held within 5 business days before or after the end of the convening period.

Five business days’ notice must be given to creditors ahead of the meeting being held. For RCR, the second meetings of creditors were originally due to be held on or before 28 December 2018.

However, noting the size and complexity of the administration and the going concern sale of business process that was underway at the time, on 11 December 2018, the Administrators filed an application with the Supreme Court of New South Wales (Court) pursuant to sections 439A and 447A of the Act, for orders granting an extension to the convening period for the second meetings of creditors. An extension of three months was sought, in order to provide further time for the Administrators to:

- continue to trade RCR while pursuing a sale process for all, or part, of the business;
- investigate the affairs of RCR and prepare a report to creditors pursuant to section 75-225 of the Insolvency Practice Rules (Corporations) 2016 (IPR) (this Report); and
• seek proposals for a Deed of Company Arrangement (DOCA).

On 12 December 2018, the Court granted the requested extension of the convening periods to 19 March 2019, meaning that the second meetings of creditors of RCR must be held on or before 26 March 2019 (five business days thereafter). The Administrators wrote to creditors in this regard on 14 December 2018.

2.5 Second meetings of creditors

The purpose of the second meetings of creditors is for creditors to:

• decide on the future of the Companies, with the options available to creditors to vote on being whether the companies in the RCR Group should:
  – be returned to the control of the Board;
  – enter into liquidation; or
  – enter into a DOCA (although, at the date of this Report, a DOCA has not been proposed);

• consider and, if thought fit, approve the remuneration of the Administrators (remuneration approval will only be sought at the meetings for RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) being held in Perth, Western Australia); and

• if creditors resolve that the RCR Group should enter liquidation:
  – consider the appointment of a COI (for the purposes of a liquidation);
  – consider authorising the liquidators to compromise debts of the Companies pursuant to section 477(2A) of the Act; and
  – consider authorising the liquidators to enter into agreements that may take longer than three months to complete under Section 477(2B) of the Act.

The second meetings of creditors for the RCR Group have been convened to be held on Tuesday, 26 March 2019 (Second Meetings of Creditors). The meetings will be held in two locations, as follows:

• Duxton Hotel, 1 St Georges Terrace, Perth WA 6000 at 1.00pm AWST (the Perth meetings), for creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd); and

• Wesley Conference Centre, 220 Pitt Street, Sydney N5W 2000 at 1.00pm AEDT (the Sydney meetings), for creditors of all other entities within the Group.

For the avoidance of doubt, the Perth meetings are being convened for the creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) only.

If you are a creditor of any other entity listed at Appendix A (which will be the large majority of creditors), the relevant meeting for you to attend is the Sydney meeting. Creditors who are unable to attend the Sydney meetings in person may attend by webcast, subject to providing the required documentation in advance of the meetings.

Observers are able to attend either meeting, however will not be entitled to participate, either by voting or by asking questions.

Further details regarding the Second Meetings of Creditors (including details as to how to view the Sydney meetings via webcast) can be found in section 15 of this Report, with the official notice of meeting included at Appendix B.

2.6 Purpose of this Report

Section 75-225 of the IPR requires an administrator to provide a report to all creditors ahead of the second meeting of creditors in an administration, containing:

• details about the business, property, affairs and financial circumstances of the entities under administration;

• if a DOCA is proposed, the details of the DOCA; and

• details of the investigations undertaken by the administrator, and the administrator’s opinion about each of the options available to creditors, and the course of action that the administrator recommends is in creditors’ best interests.
2.7 Context of this Report

In reading this Report, creditors should note the following:

- This Report and the statements herein are based on the Administrators’ preliminary investigations of RCR’s affairs, undertaken in a compressed timeframe. The investigations have been undertaken from available books and records, as well as information provided by RCR’s officers, key personnel where applicable, and from the Administrators’ own enquiries.

- The statements and opinions in this Report are given in good faith and, whilst we have no reason to doubt any information contained in this Report, the Administrators reserve the right to alter their conclusions if the underlying information proves to be inaccurate or materially changes following the issuing of this Report.

- If, after issuing this Report, the Administrators become aware of any additional information which may assist creditors in determining how to vote at the Second Meetings of Creditors, the Administrators may make the additional information the subject of a further written report and/or table the information at the Second Meetings of Creditors.

- Presenting the information in this Report, the Administrators have necessarily made forecasts of asset realisations and estimated the total value of creditors. These forecasts and estimates may change as asset realisations progress and claims are received from creditors. Whilst the forecasts and estimates are the result of the Administrators’ best assessment in the circumstances, creditors should note that the outcome for creditors may differ from the information provided in this Report.

- The assessment of potential claims in this Report have been performed on a preliminary basis based on information available to the Administrators at the time of completion of this Report. As a consequence, the Administrators reserve their right to alter their assessment if further relevant information is provided after the date of this Report or as a consequence of further investigations in the event that any entity within the RCR Group is wound up (i.e. a liquidator is appointed to any of the entities within the RCR Group).

2.8 Declaration of Independence, Relevant Relationships and Indemnities

In accordance with Section 436DA of the Act and the Australian Restructuring, Insolvency and Turnaround Association (ARITA) Code of Professional Practice, a Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) was enclosed with the Administrators’ first communication to creditors and tabled at the First Meetings of Creditors.

The DIRRI disclosed information regarding the Administrators’ independence, prior personal or professional relationships with the Companies or related parties and indemnities received in relation to this appointment.

Under the Act and the ARITA Code of Professional Practice, if circumstances change or new information is identified, the Administrators are required to update the DIRRI and provide a copy to creditors with their next communication, as well as table a copy of the replacement DIRRI at the next meeting of creditors.

A minor amendment was made to the DIRRI and provided to creditors via the McGrathNicol website (refer section 16 for details) on 18 December 2018. The updated DIRRI was tabled at the COI meeting held on 1 February 2019 and a copy is included at Appendix C.

2.8.1 Independence

We, Jason Preston, Jamie Harris, Matthew Caddy and Rob Brauer of the firm McGrathNicol, have undertaken a proper assessment of the risks to our independence prior to accepting the appointments as Administrators of the Companies in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that should have prevented us from accepting or continuing this appointment.

2.8.2 Indemnities and up-front payments

The Administrators have not been indemnified in relation to this administration, other than any indemnities that they may be entitled to under statute and at law and they have not received any up-front payments in respect of their remuneration or disbursements.

Following the Appointment, the Administrators entered into discussions with the Commonwealth Bank of Australia (CBA), an RCR Group secured creditor, regarding a funding arrangement on commercial terms to enable the businesses operated...
by the Group to continue to trade (Funding Facility). The provision of the Funding Facility enabled the facilitation of a sale process, to realise the RCR Group’s businesses as a going concern.

On 23 November 2018, the Administrators sought and obtained orders from the Court, including that pursuant to section 447A(1) and 443D of the Act, that the Administrators would not be personally liable for funds drawn under the Funding Facility.

2.8.3 Ongoing assessment

Since the Appointment Date, the Administrators have continued to assess whether any potential conflict of interest matters have developed.

At the date of this Report, the Administrators’ opinion has not varied from the information provided in the DIRRI.

The Administrators remain of the view that their prior professional relationships, as outlined in the DIRRI, do not create or give rise to any conflict of interest.
3 Background and statutory information

This section of the Report provides creditors with details regarding the entities within the Group, their shareholders, the Directors and other statutory information, as well as the history of RCR and the circumstances leading to the Administrators’ Appointment.

3.1 Early history of the RCR Group

The RCR Group operates engineering and infrastructure businesses, with its head office in Sydney and operations located across Australia, New Zealand and Asia, under three key divisions, infrastructure, energy and resources.

The beginning of RCR can be traced back to 1896, when Ernest and Edward Tomlinson established the engineering firm Tomlinson Bros in Perth, Western Australia. The business was later traded through Clyde Industries Limited’s Welshpool site, before being purchased by Centurion Industries Ltd in 1985.

Separately, RCR Engineering was established in 1979 by Ron Stevens, Clive Butcher and Robert Wovodich in south-west, Western Australia.

The merger of RCR Engineering Ltd and Centurion Industries Ltd in December 1996 created RCR Tomlinson Ltd, which has since grown through acquisitions and organic growth to include an ASX listed head company and 49 wholly owned subsidiaries (including international subsidiaries).

3.2 Corporate structure

The corporate structure for the RCR Group at the Appointment Date includes:

- the listed head company, RCR Tomlinson Ltd;
- 41 wholly owned Australian subsidiaries;
- three wholly owned subsidiaries incorporated in New Zealand; and
- five subsidiaries incorporated across Asia.

A detailed corporate structure of the RCR Group is included at Appendix D.

As outlined at section 2.1 of this Report, the Administrators were appointed over 41 of the Australian entities (including the listed head company), with the one remaining Australian subsidiary (Moray Power Pty Ltd) remaining in the control of its directors as a solvent entity. Further details of the international entities are included at section 3.4.

Appendix E contains the statutory details (e.g. date of incorporation, registered office, class and description) as well as other information for each individual entity included in the Appointment, as at the Appointment Date.

3.2.1 Deed of Cross Guarantee

Certain companies within the RCR Group entered into a Deed of Cross Guarantee on 22 June 2011 pursuant to ASIC Class Order 98/1418 (Deed of Cross Guarantee). The Deed of Cross Guarantee allowed the RCR Group to:

- prepare consolidated financial statements, including all entities; and
- ensure that if an entity which is party to the Deed of Cross Guarantee is wound up, the other entities which are also parties to the Deed of Cross Guarantee, guarantee the payment of the amounts owed to the creditors of that entity.

The listing at Appendix A identifies the 26 entities included in the RCR Group that are bound by the Deed of Cross Guarantee.

At the Second Meetings of Creditors, creditors of entities that are party to the Deed of Cross Guarantee are permitted to prove as creditors for voting purposes in the entity in which they are a creditor, and as contingent creditors in all other entities which are party to the Deed of Cross Guarantee.
3.3 Australian operations

3.3.1 Operating locations

RCR’s primary areas of activity are located in New South Wales, Victoria, Queensland and Western Australia.

Figure 1: RCR Australian locations

3.3.2 Business unit summary

Set out below is a summary of the RCR Group Australian business units and divisions for financial reporting in FY18, being Energy, Infrastructure and Resources.

Figure 2: RCR divisions and business units

A detailed summary of RCR Group’s activities by division and business unit is set out below.
### 3.3.3 Energy

RCR’s Energy division included:

- Energy Projects;
- Energy Services;
- Newcastle based Upgrades & Maintenance (U&M); and
- Laser.

<table>
<thead>
<tr>
<th>Business unit</th>
<th>Description</th>
<th>Key statistics</th>
</tr>
</thead>
</table>
| Energy Projects | Engaged in contracts for the design, supply, construction and commissioning of power generation technology for energy plants, e.g. power stations, open and combined cycle gas turbine power plants and steam generation plants. | FY18 sales: $32.5 million  
FY18 contribution: $1.8 million  
Employees at Appointment: 10 |
| Energy Services | Provided a network of service offices across Australia, NZ, and Malaysia, providing sales support, installation, commissioning, 24/7 emergency service support, spare parts and technical support primarily for smaller scale boilers and burners. | FY18 sales: $21.5 million  
FY18 contribution: $2.3 million  
Employees at Appointment: 58 |
| Upgrades & Maintenance | Provided shut-downs, planned maintenance and plant refurbishment services to major utility power stations as well as companies in the petrochemical and industrial sectors. | FY18 sales: $85.4 million  
FY18 contribution: $6.6 million  
Employees at Appointment: 526 (including over 400 casual employees) |
| Laser | Quality-certified laser cutting and processing specialists (e.g. cutting of thin sheet metals along with the ability to cut a wide range of ferrous and non-ferrous materials), servicing the manufacturing, fabrication, and engineering sectors. | FY18 sales: $44.7 million  
FY18 contribution: $3.9 million  
Employees at Appointment: 194 |

### 3.3.4 Infrastructure

RCR’s Infrastructure division included:

- Power;
- Rail;
- the solar farm projects;
- Water (East and West); and
- Property Services (made up of the Haden, Resolve FM and ODG Services businesses).

<table>
<thead>
<tr>
<th>Business unit</th>
<th>Description</th>
<th>Key statistics</th>
</tr>
</thead>
</table>
| Power | Provided electrical and instrumentation (E&I) services, installation of high voltage equipment, fibre networks and process control systems, as well as manufacturing switchboards and providing testing and commissioning services. | FY18 revenue: $70.8 million  
FY18 contribution: $4.5 million  
Employees at Appointment: 83 |
<table>
<thead>
<tr>
<th>Business unit</th>
<th>Description</th>
<th>Key statistics</th>
</tr>
</thead>
</table>
| Rail          | Delivered rail and transport projects, including signalling, in-house software testing facilities, station and tunnel services, rail safety assurance, testing & commissioning. | FY18 sales: $144.8 million  
FY18 contribution: $0.9 million  
Employees at Appointment: 414 |
| Solar         | Performed Engineering, Procurement and Construction contracts (EPC Contracts) as well as Operation and Maintenance contracts (O&M Contracts), including design, construction, deployment, and operation of large-scale renewable energy (solar, wind, battery and hydro) generation assets. | FY18 sales: $1,014.6 million  
FY18 contribution: $70.3 million  
Employees at Appointment: 384 |
| Water         | Performed construction contracts, primarily for WA Water Corporation and Sydney Water, including water treatment plants, waste water treatment facilities, and pump stations. | FY18 sales: $62.7 million (West) and $16.8 million (East)  
FY18 contribution: $1.5 million (West) and ($3.2 million) (East)  
Employees at Appointment: 117 |
| Property services | The Australian Property Services business unit was made up of three businesses, being:  
- Haden: constructed and maintained heating, ventilation, and air conditioning facilities;  
- Resolve FM: provided technical facilities management services (e.g. asset management, integrated facilities management and call centres); and  
- ODG Services: provided electrical services maintenance programs. | FY18 sales: $125.6 million  
FY18 contribution: $3.4 million  
Employees at Appointment: 438 |

3.3.5 Resources

Provider of engineering, construction, commissioning, maintenance and shutdown services to the mining and resources sector.

<table>
<thead>
<tr>
<th>Business unit</th>
<th>Description</th>
<th>Key statistics</th>
</tr>
</thead>
</table>
| Resources     | Major projects included construction of materials handling systems and process facilities, as well as structural mechanical piping and electrical and instrumentation construction and maintenance. | FY18 sales: $157.3 million  
FY18 contribution: $11.8 million  
Number of employees at Appointment: 106 |
| Mining        | Provided mining technology design and fabrication, service parts fabrication and maintenance, and blasting and painting workshop. | FY18 sales: $137.0 million  
FY18 contribution: $2.6 million  
Number of employees at Appointment: 242 |
Heat Treatment

Operated a NATA accredited laboratory providing metallurgy services (accredited to ISO 17025 standard for over 60 years). Provided a comprehensive 24/7 in-house and call-out thermal engineering and heat treatment service.

FY18 sales: $7.5 million
FY18 contribution: $2.1 million
Number of employees at Appointment: 29

3.4 International subsidiaries

RCR has international subsidiaries located in New Zealand, Indonesia, Malaysia, Vietnam, India and Hong Kong. The international entities are not part of the Administration.

3.4.1 New Zealand

The New Zealand businesses were the most substantial of the international operations and operated in infrastructure, building products and energy divisions.

The directors of the New Zealand entities continued to trade the business following the appointment of Administrators to the Australian entities, seeking to complete a sale of the business outside of insolvency. On 18 December 2018 the New Zealand directors resolved to appoint Conor McElhinney and Andrew Grenfell as Voluntary Administrators (NZ Administrators) of all three New Zealand entities when it became clear that a sale could not be completed outside the insolvency process. Further details on this appointment can be found on the McGrathNicol website (refer section 16 for details). This report does not relate to the entities under the control of the NZ Administrators.

Since their appointment the NZ Administrators have traded the businesses and signed sale agreements for all the New Zealand assets. The distribution of proceeds from the New Zealand insolvency process is being managed by the NZ Administrators. The New Zealand entities are included in the Secured Creditors’ security package, therefore all proceeds from the sale of the businesses are expected to be used to meet preferential creditors of the New Zealand entities or to reduce the Secured Creditors’ debt.

3.4.2 Indonesia and Malaysia

The entities in Indonesia and Malaysia operate an integrated energy projects business, with the Malaysian entity responsible for engineering design and provision of equipment and the Indonesian entity responsible for on the ground project management.

The directors of those entities continued to trade the businesses since the Appointment Date, while seeking to effect a sale. On 12 March 2019, following an international and local sale campaign, the directors appointed Tam Kok Meng and Datuk Ooi Woon Chee of Bridge Corp. Management as Interim Liquidators of the Malaysian entity. An appointment to the Indonesian entity is expected to occur shortly.

Both entities are guarantor or indemnifier to at least one insurance bond provider and therefore, it is expected there will be minimal return to the Australian entities from the winding up process.

3.4.3 Vietnam

The Vietnamese entity operates a facilities management business. The directors continue to trade the business while seeking to effect a sale. This entity is not a guarantor under any of the financing documents with the Secured Creditors or bond providers and so any proceeds from the sale of the business will be returned to the Australian RCR Group after satisfying any local prior ranking creditors, either via repayment of intercompany loans, or as proceeds from the sale of the shares.

3.4.4 India and Hong Kong

The Indian entity is dormant and in the process of being wound up, a process the directors are continuing.

The Hong Kong entity is a holding entity which owns the Vietnamese entity and has a minor shareholding in the Indian entity. The directors have taken no action with this entity at this time, and are expected to place it into liquidation/wind it up once the Vietnamese and Indian entities affairs have been resolved.
3.5 Directors and Officers

The current directors and officers of the RCR Group are summarised below. Details of the current and former directors and officers, by entity, are provided at Appendix E.

Table 1: Current directors and officers

<table>
<thead>
<tr>
<th>Director/Officer</th>
<th>Title</th>
<th>Chair</th>
<th>ED</th>
<th>NED</th>
<th>Secretary</th>
<th>Secretary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roderick Brown</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bruce James</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lloyd Jones</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan Palmer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>David Robinson</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Darryl Edwards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kym Low</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RCR Tomlinson Ltd</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Subsidiary entities</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ASIC records

Note: Kym Low is a Company Secretary for all administration entities with the exception of RCR Tomlinson Ltd and RCReate Pty Ltd

3.6 Secured Creditors

3.6.1 Syndicate of lenders

As at appointment, the secured syndicate of lenders consisted of Commonwealth Bank of Australia (CBA or the Security Trustee or the Agent), HCC International Insurance Company, MUFG Bank, Ltd (formerly known as The Bank of Tokyo-Mitsubishi UFJ Ltd), Swiss Re International SE Singapore Branch and Chubb Insurance Australia Ltd (the Secured Creditors).

RCR entered into a syndicated facility agreement on 11 July 2013 (as amended and restated from time to time) (the SFA), and up to the date of Appointment had access to the following facilities:

- Facility A: An amortising cash advance facility;
- Facility B and D: Multi-currency contingent instrument facilities; and
- Facility C: A multi-option facility, provided by CBA under the terms of a separate Multi-Option Facility Agreement (MOFA).

RCR was regularly required to provide bonds, guarantees and letters of credit to landlords on its leased premises as well as principals on solar, rail and other major projects. Facilities B and D and certain lines under the MOFA were provided or fronted by CBA for this purpose.

As part of the capital raise arrangements in August 2018, the CBA agreed to reallocate the MOFA commitments so that an additional $25 million was available under the group overdraft sub facility. There was also a corresponding $25 million reduction in headroom that was previously available under Facility B of the SFA. The reallocation under the MOFA resulted in a corresponding reduction of $25 million in the contingent instrument sub facility under the MOFA (reducing the total contingent instrument facility limits to $270 million).

The Secured Creditors’ exposure under each facility as at Appointment is summarised in the table below. All facilities rank equally and pari passu with each other.

Table 2: Secured Creditors’ exposure on Appointment

<table>
<thead>
<tr>
<th>$’m</th>
<th>Facility limit</th>
<th>Exposure on Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility A</td>
<td>Senior debt facility</td>
<td>31.3</td>
</tr>
<tr>
<td>Facility B and D</td>
<td>Contingent instrument facilities</td>
<td>270.0</td>
</tr>
<tr>
<td>Facility C</td>
<td>Multi-option facility, including overdraft, cash advance and business card facilities</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>401.3</td>
</tr>
</tbody>
</table>
3.6.2 Security interests

A search of the Personal Property Securities Register (PPSR) as at the Appointment Date revealed numerous registered security interests held against the RCR Group, as summarised in the table below.

Table 3: PPSR registrations

<table>
<thead>
<tr>
<th>Security interests</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>All PAP - Secured creditor</td>
<td>87</td>
</tr>
<tr>
<td>All PAP - other</td>
<td>10</td>
</tr>
<tr>
<td>All PAP with Exception</td>
<td>7</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>1,153</td>
</tr>
<tr>
<td>Chattel paper</td>
<td>8</td>
</tr>
<tr>
<td>General Intangible</td>
<td>10</td>
</tr>
<tr>
<td>Design</td>
<td>1</td>
</tr>
<tr>
<td>Document of Title</td>
<td>2</td>
</tr>
<tr>
<td>Account</td>
<td>3</td>
</tr>
<tr>
<td>Other goods</td>
<td>1,563</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,844</strong></td>
</tr>
</tbody>
</table>

*Source: PPSR searches undertaken on 21 November 2018*

3.7 Employees

At Appointment, the RCR Group employed 2,817 employees, comprising 2,096 full time employees, 49 part time employees and 656 casual employees, as well as 16 apprentices. Provided below is a summary of employees and the total value of employee entitlements (including superannuation and potential redundancy) by entity as at Appointment.

Table 4: Employees

<table>
<thead>
<tr>
<th>Employees by entity</th>
<th>Number</th>
<th>Entitlements</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCR Tomlinson Ltd</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>RCR Asset Maintenance Pty Ltd</td>
<td>69</td>
<td>0.2</td>
</tr>
<tr>
<td>RCR Corporate Pty Ltd</td>
<td>140</td>
<td>8.0</td>
</tr>
<tr>
<td>RCR Energy (Gladstone) Pty Ltd</td>
<td>21</td>
<td>0.4</td>
</tr>
<tr>
<td>RCR Energy Pty Ltd</td>
<td>507</td>
<td>4.7</td>
</tr>
<tr>
<td>RCR Energy Service Pty Ltd</td>
<td>58</td>
<td>2.5</td>
</tr>
<tr>
<td>RCR Haden Pty Ltd</td>
<td>203</td>
<td>6.2</td>
</tr>
<tr>
<td>RCR Laser Pty Ltd</td>
<td>194</td>
<td>4.1</td>
</tr>
<tr>
<td>RCR Mining Pty Ltd</td>
<td>242</td>
<td>9.0</td>
</tr>
<tr>
<td>RCR O’Donnell Griffin Pty Ltd</td>
<td>949</td>
<td>25.5</td>
</tr>
<tr>
<td>RCR Oil &amp; Gas Pty Ltd</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>RCR Power Pty Ltd</td>
<td>63</td>
<td>2.1</td>
</tr>
<tr>
<td>RCR Resolve FM Pty Ltd</td>
<td>142</td>
<td>2.3</td>
</tr>
<tr>
<td>RCR Resources (Heat Treatment) Pty Ltd</td>
<td>29</td>
<td>1.3</td>
</tr>
<tr>
<td>RCR Resources Pty Ltd</td>
<td>106</td>
<td>3.6</td>
</tr>
<tr>
<td>RCR Water (WA) Pty Ltd</td>
<td>51</td>
<td>2.8</td>
</tr>
<tr>
<td>RCR Water Pty Ltd</td>
<td>41</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,822</strong></td>
<td><strong>74.2</strong></td>
</tr>
</tbody>
</table>

*Source: RCR Group books and records*
3.8 Unsecured creditors

3.8.1 Unsecured bond issuers

As noted above, RCR was regularly required to provide bonds, guarantees and letters of credit to landlords for its leased premises as well as principals on solar, rail and other major projects. In addition to the facilities provided by the Secured Creditors, three unsecured bond issuers provided RCR with a further combined $250 million facility, drawn to approximately $88.9 million at Appointment.

3.8.2 Trade and other creditors

The Companies’ books and records at the Appointment Date show that the RCR Group had approximately 4,400 trade and other unsecured creditors, owed a total of approximately $170.0 million (as shown in the graph below).

Table 5: Unsecured creditors

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of creditors</th>
<th>Amount $’m</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCR Tomlinson Ltd</td>
<td>6</td>
<td>0.5</td>
</tr>
<tr>
<td>RCR Asset Maintenance Pty Ltd</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>RCR Corporate Pty. Ltd.</td>
<td>161</td>
<td>8.5</td>
</tr>
<tr>
<td>RCR Energy (Gladstone) Pty Ltd</td>
<td>68</td>
<td>0.3</td>
</tr>
<tr>
<td>RCR Energy Pty Ltd</td>
<td>277</td>
<td>17.5</td>
</tr>
<tr>
<td>RCR Energy Service Pty Ltd</td>
<td>207</td>
<td>2.1</td>
</tr>
<tr>
<td>RCR Haden Pty Ltd</td>
<td>665</td>
<td>3.9</td>
</tr>
<tr>
<td>RCR Laser Pty Ltd</td>
<td>271</td>
<td>5.6</td>
</tr>
<tr>
<td>RCR Mining Pty Ltd</td>
<td>438</td>
<td>13.9</td>
</tr>
<tr>
<td>RCR O’Donnell Griffin (Projects) Pty Ltd</td>
<td>5</td>
<td>0.1</td>
</tr>
<tr>
<td>RCR O’Donnell Griffin Pty Ltd</td>
<td>1,373</td>
<td>102.7</td>
</tr>
<tr>
<td>RCR Oil &amp; Gas Pty Ltd</td>
<td>35</td>
<td>0.2</td>
</tr>
<tr>
<td>RCR Power Pty Ltd</td>
<td>77</td>
<td>1.5</td>
</tr>
<tr>
<td>RCR Resolve FM Pty Ltd</td>
<td>331</td>
<td>3.8</td>
</tr>
<tr>
<td>RCR Resources (Heat Treatment) Pty Ltd</td>
<td>77</td>
<td>0.5</td>
</tr>
<tr>
<td>RCR Resources (Tripower) Pty Ltd</td>
<td>59</td>
<td>0.2</td>
</tr>
<tr>
<td>RCR Resources Pty Ltd</td>
<td>155</td>
<td>6.2</td>
</tr>
<tr>
<td>RCR Water (WA) Pty Ltd</td>
<td>5</td>
<td>0.4</td>
</tr>
<tr>
<td>RCR Water Pty Ltd</td>
<td>202</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>4,415</td>
<td>170.6</td>
</tr>
</tbody>
</table>

*Source: Company books and records*

The Administrators have received a significant number of proof of debt forms, including claims for contingent liabilities and liquidated damages. The Administrators are in the process of adjudicating the proof of debts received in relation to claims, for the purposes of voting at the Second Meetings of Creditors.

A formal adjudication process for dividend purposes will only be performed in the event that sufficient recoveries are made to enable a distribution to unsecured creditors.
3.9 Shareholders

3.9.1 Shareholders of RCR Tomlinson

Provided below is a summary of the distribution of shareholdings in RCR Tomlinson as at 5 September 2018, as well as a list of the 20 largest registered shareholders, as reported in RCR’s 2018 annual report. Appendix E contains further details of the shareholders for each subsidiary entity, as at the date of Appointment.

Table 6: Distribution of shareholdings

<table>
<thead>
<tr>
<th>Fully paid ordinary shares</th>
<th>Number of shareholders</th>
<th>Number of shares</th>
<th>% of issued capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 1,000 shares</td>
<td>996</td>
<td>478,242</td>
<td>0.20%</td>
</tr>
<tr>
<td>1,001 - 5,000 shares</td>
<td>1,783</td>
<td>5,154,675</td>
<td>2.19%</td>
</tr>
<tr>
<td>5,001 - 10,000 shares</td>
<td>755</td>
<td>5,663,597</td>
<td>2.41%</td>
</tr>
<tr>
<td>10,001 - 100,000 shares</td>
<td>770</td>
<td>19,990,375</td>
<td>8.50%</td>
</tr>
<tr>
<td>100,001 and over shares</td>
<td>75</td>
<td>203,906,857</td>
<td>86.70%</td>
</tr>
<tr>
<td>Total</td>
<td>4,379</td>
<td>235,193,746</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: 2018 Annual Report
Table 7: Largest registered shareholders

<table>
<thead>
<tr>
<th>Registered shareholder</th>
<th>Fully paid Ordinary Shares</th>
<th>% of total shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Custody Nominees (Australia) Limited</td>
<td>82,672,205</td>
<td>35.15%</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>40,246,550</td>
<td>17.11%</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited</td>
<td>21,962,111</td>
<td>9.34%</td>
</tr>
<tr>
<td>National Nominees Limited</td>
<td>12,802,362</td>
<td>5.44%</td>
</tr>
<tr>
<td>BNP Paribas Noms Pty Ltd</td>
<td>6,705,961</td>
<td>2.85%</td>
</tr>
<tr>
<td>Masfen Securities Limited</td>
<td>4,245,728</td>
<td>1.81%</td>
</tr>
<tr>
<td>Mr Paul Joseph Dalgleish</td>
<td>4,022,992</td>
<td>1.71%</td>
</tr>
<tr>
<td>UBS Nominees Pty Ltd</td>
<td>2,883,325</td>
<td>1.23%</td>
</tr>
<tr>
<td>CS Fourth Nominees Pty Limited</td>
<td>2,640,654</td>
<td>1.12%</td>
</tr>
<tr>
<td>UBS Nominees Pty Limited</td>
<td>2,620,995</td>
<td>1.11%</td>
</tr>
<tr>
<td>BNP Paribas Noms (NZ) Ltd</td>
<td>2,605,133</td>
<td>1.11%</td>
</tr>
<tr>
<td>BNP Paribas Nominees Pty Ltd</td>
<td>2,183,919</td>
<td>0.93%</td>
</tr>
<tr>
<td>Warbont Nominees Pty Ltd</td>
<td>1,588,482</td>
<td>0.68%</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited</td>
<td>1,390,000</td>
<td>0.59%</td>
</tr>
<tr>
<td>CS Third Nominees Pty Limited</td>
<td>1,232,435</td>
<td>0.52%</td>
</tr>
<tr>
<td>HSBC Custody Nominees (Australia) Limited - A/C 2</td>
<td>1,045,108</td>
<td>0.44%</td>
</tr>
<tr>
<td>CPU Share Plans Pty Limited</td>
<td>709,401</td>
<td>0.30%</td>
</tr>
<tr>
<td>HSBC Custody Nominees (Australia) Limited-Gsco Eca</td>
<td>582,175</td>
<td>0.25%</td>
</tr>
<tr>
<td>Mr Joshua Kane Hogan</td>
<td>568,876</td>
<td>0.24%</td>
</tr>
<tr>
<td>Forsyth Barr Custodians Ltd</td>
<td>543,830</td>
<td>0.23%</td>
</tr>
<tr>
<td>Total Held by Top 20</td>
<td>193,252,242</td>
<td>82.17%</td>
</tr>
<tr>
<td>Others</td>
<td>41,941,504</td>
<td>17.83%</td>
</tr>
<tr>
<td>Total Ordinary Fully Paid Shares on Issue</td>
<td>235,193,746</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: 2018 Annual Report

3.9.2 Dividends

Provided below is a summary of the dividends paid to shareholders of RCR Tomlinson over the past five financial years:

Table 8: RCR Tomlinson dividends

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Interim dividend</th>
<th>Final dividend</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>c/share</td>
<td>$’m</td>
<td>c/share</td>
</tr>
<tr>
<td>FY14</td>
<td>3.00</td>
<td>4.1</td>
<td>7.00</td>
</tr>
<tr>
<td>FY15</td>
<td>3.50</td>
<td>4.9</td>
<td>7.50</td>
</tr>
<tr>
<td>FY16</td>
<td>1.75</td>
<td>2.5</td>
<td>-</td>
</tr>
<tr>
<td>FY17</td>
<td>-</td>
<td>-</td>
<td>6.00</td>
</tr>
<tr>
<td>FY18</td>
<td>2.50</td>
<td>4.1</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: the FY18 interim dividend was paid to shareholders on 5 April 2018.
3.9.3 Share price and market capitalisation

Provided below is a graph of the share price and market capitalisation of RCR Tomlinson from 9 January 2018 until 9 November 2018, after which RCR Tomlinson was in a trading halt and then a voluntary suspension up to the date of Appointment.

Figure 3: RCR Tomlinson share price and market capitalisation over 2018

During FY18, RCR Tomlinson entered into two trading halts, each progressing to the voluntary suspension of its shares. The first trading halt was entered into on 30 July 2018, progressing to a voluntary suspension on 1 August 2018 after the Board became aware of significant cost overruns on two of the major solar farm projects (refer section 7.2.2). The voluntary suspension, which lasted 30 days, ended with RCR announcing a capital raise (refer section 3.9.4) and reporting $57 million in cost overruns on the solar projects in question.

On 12 November 2018, RCR Tomlinson entered its second trading halt (progressing to a voluntary suspension on 14 November 2018) after the Board became aware of further costs overruns within the solar business unit, a general deterioration in its forecast receipts (across multiple business units) and the need for RCR to source additional funding. RCR Tomlinson did not recommence trading on the ASX prior to the appointment of Administrators.

3.9.4 2018 Capital Raise

3.9.4.1 Background

Following RCR Tomlinson’s voluntary suspension on 1 August 2018, on 28 August 2018, the RCR Group announced its intention to raise additional capital and released a Project Update and Capital Raising Investor Presentation (Investor Presentation) and accompanying Prospectus.

The capital raise was a pro rata accelerated non-renounceable entitlement offer of new fully paid ordinary shares (New Shares) in RCR to eligible institutional shareholders of RCR and eligible retail shareholders of RCR (2018 Capital Raise).

The 2018 Capital Raise announced to investors sought to raise approximately $100 million to support the RCR Group’s core business and strategy in light of:

- the cash drain experienced on the Daydream and Hayman solar Farm Projects;
- an anticipated increase in working capital requirements as RCR sought to move to lower risk, more capital intensive ‘alliance style’ contracting models;
- the need to strengthen the balance sheet;
- other project cost overruns; and
- the need to regain the confidence of lenders, suppliers and customers.
The Administrators understand that the Board initially contemplated a requirement to raise $125 million through the capital raising process, however this was reduced to $100 million after CBA agreed to reallocate the MOFA commitments so that an additional $25 million was available under the group overdraft sub facility.

### 3.9.4.2 Intended sources and uses of funds

The intended sources and uses of funds is summarised below as outlined in the Investor Presentation.

**Table 9: Intended sources and uses of capital raise**

<table>
<thead>
<tr>
<th>Sources</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity raising</td>
<td>100.0</td>
</tr>
<tr>
<td>Additional working capital facilities</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Total sources</strong></td>
<td><strong>125.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Replace cash related to cumulative project write-downs</td>
<td>(57.0)</td>
</tr>
<tr>
<td>Cash available for working capital</td>
<td>(57.0)</td>
</tr>
<tr>
<td>- Support growth in ‘alliance style’ contract models</td>
<td></td>
</tr>
<tr>
<td>- Enhance ability to manage working capital requirements</td>
<td></td>
</tr>
<tr>
<td>Transaction costs</td>
<td>(11.0)</td>
</tr>
<tr>
<td><strong>Total uses</strong></td>
<td><strong>(125.0)</strong></td>
</tr>
</tbody>
</table>

*Source: RCR investor presentation 28 August 2018*

### 3.9.4.3 Completion of Entitlement Offer

On 30 August 2018, the RCR Group announced that it had successfully completed its institutional entitlement offer which raised a total of approximately $70 million with existing shareholders taking up 88% of New Shares available to them.

On 21 September 2018, the RCR Group announced that it had completed its retail entitlement offer which raised a total of approximately $14.4 million. The Retail Entitlement offer achieved a take-up rate of approximately 47%, with the balance of approximately $15.6 million contributed by the underwriter.

### 3.9.5 Shareholder class action

On 16 November 2018, Quinn Emanuel Urquhart & Sullivan filed class action proceedings against RCR Tomlinson on behalf of shareholders in the Supreme Court of New South Wales, to be funded by Burford Capital, a global finance firm.

The class action is for the benefit of shareholders who acquired shares between 11 August 2017 and 27 July 2018, in reference to the following significant events:

- in August 2017, the RCR Board determined the need to raise capital of $90 million through an institutional placement and share purchase plan of $75 million and $15 million respectively, in order to aid growth in renewable projects (*the 2017 Capital Raise*); and

- the announcement to the market of the Daydream and Hayman solar farm cost overruns on 28 August 2018, on the assumption that the causes of these overruns were (or ought to have been) known to the Board before this date.

The Administrators are aware that other shareholders may bring further claims against the RCR Group, although the basis of such claims is presently unclear. In liquidation, claims against RCR cannot proceed without leave of the Court.
3.10 **Timeline of key events**

Based on company records and information provided by Management, outlined below is a timeline of key events prior to the appointment of Administrators.

**Table 10: Timeline of key events**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 to early 2018</td>
<td>Over an 18 month period, the RCR Group entered into agreements to deliver 15 solar farm projects.</td>
</tr>
<tr>
<td>July 2018</td>
<td>The RCR Board met to discuss cost overruns identified on the Daydream and Hayman solar projects.</td>
</tr>
<tr>
<td>30 July 2018 / 1 August 2018</td>
<td>RCR shares were placed into trading halt on 30 July 2018 and subsequently suspended from quotation on 1 August 2018 (remaining so until 30 August 2018), pending the release of an announcement regarding the impact of the cost overruns on its FY18 financial results.</td>
</tr>
<tr>
<td>First week of August 2018</td>
<td>The Company requested its securities remain suspended from trading and confirmed significant cost overruns of approximately $57 million recently discovered on the Daydream and Hayman solar projects (referred to collectively by RCR as ‘Project Gretel’). In the first week of August, the Board resolved to initiate a capital raise, to be underwritten by Macquarie Capital. Deloitte was engaged to prepare a limited scope financial due diligence report in connection with the Prospectus. Paul Dalgleish stepped down as Managing Director and Chief Executive Officer (CEO) and Bruce James appointed as interim CEO.</td>
</tr>
<tr>
<td>14 August 2018</td>
<td>McGrathNicol engaged by RCR’s legal advisers to provide assistance in assessing the short-term cash flow forecast and the forecasting process of the RCR Group and to undertake contingency planning for a potential appointment of voluntary administrators to the RCR group.</td>
</tr>
<tr>
<td>28 August 2018</td>
<td>RCR announced FY18 results, revised to reflect the $57 million Project Gretel cost overruns and a capital raise of $100 million to strengthen its balance sheet. RCR reported revenue growth ($2.0 billion, up 58.2% on the prior comparative period) with an EBIT loss of $4.2 million, a statutory net loss after tax of $16.1 million and no final dividend.</td>
</tr>
<tr>
<td>30 August 2018</td>
<td>RCR recommenced trading on the ASX (29 days after suspension on 1 August 2018) and the Institutional Entitlement Offer completed successfully, raising $70 million.</td>
</tr>
<tr>
<td>21 September 2018</td>
<td>The Retail Entitlement Offer completed, raising $14.4 million with the balance of approximately $15.6 million contributed by the underwriter.</td>
</tr>
<tr>
<td>30 October 2018</td>
<td>McGrathNicol engaged by RCR’s legal advisers to provide further assistance in assessing the RCR Group’s cash flow forecast and to update the contingency planning work undertaken as a part of McGrathNicol’s initial phase of work.</td>
</tr>
<tr>
<td>7 November 2018</td>
<td>Andrew Phipps resigned as Chief Financial Officer (CFO) and Andrew Batch was appointed CFO.</td>
</tr>
<tr>
<td>12/14 November 2018</td>
<td>RCR shares were placed into trading halt on 12 November 2018 and subsequently suspended from quotation on 14 November 2018, pending the release of an announcement regarding its earnings for FY19 and the associated consequences for its funding.</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>19 November 2018</td>
<td>RCR was served with a shareholder class action proceeding filed in the Court on behalf of shareholders who acquired an interest in ordinary shares in the Company in the period between 11 August 2017 and 27 July 2018.</td>
</tr>
<tr>
<td>20 November 2018</td>
<td>RCR put a formal request for further funding to the Secured Creditors.</td>
</tr>
<tr>
<td>21 November 2018</td>
<td>The Agent notified the Group that the Secured Creditors had determined they would not provide the requested funding. CBA cancelled the group overdraft sub facility available under the MOFA and exercised its right of set-off in respect of certain of the Group’s accounts maintained with the CBA. That evening, the RCR Board resolved to appoint Jason Preston, Jamie Harris, Matthew Caddy and Rob Brauer as Administrators of the RCR Group.</td>
</tr>
</tbody>
</table>

3.11 McGrathNicol’s pre-administration involvement

3.11.1 August 2018

Partners from McGrathNicol were first engaged by RCR’s legal advisors on 14 August 2018. The work undertaken included:

- **Cash flow**: the role was a head office based desktop review of the RCR Group’s short term cash flow forecast dated 10 August 2018. The report included commentary on the sources of information and on the processes involved in preparing the cash flow forecast. The work involved contact with a very limited number of personnel within the RCR Group, noting the strict confidentiality required by RCR. The DIRRI (included at Appendix C) provides a summary of the limited interactions that occurred with representatives of the RCR Group.

- **Contingency planning**: the role included gathering various information to allow preparation of a planning document for the appointment of administrators, if it were to be required.

The scope of the engagement specifically excluded providing any advice to the RCR Group’s board members or to the individual directors on their duties under the Act, the management of the Group or the management of the affairs of the Group.

The scope did not include involvement in, nor comment on, the 2018 Capital Raise. The issued report was not part of the material provided to the RCR Group’s due diligence committee in respect of the 2018 Capital Raise.

On 17 August 2018, the directors of the RCR Group engaged Deloitte to perform financial due diligence for the purposes of preparing an Independent Accountant’s opinion for a Prospectus to support the 2018 Capital Raise. Throughout the due diligence process, Deloitte were furnished with a broad range of the RCR Group’s books and records, including access to RCR Group financial information and management.

3.11.2 October 2018

Partners from McGrathNicol were again engaged by RCR’s legal advisors on 30 October 2018, in order to provide assistance in assessing the RCR Group’s cash flow forecast and to update the contingency planning work undertaken as a part of the initial phase of work.

The scope of the engagement included:

- **Cash flow**: a review of the RCR Group’s short term cash flow forecasts dated 31 October 2018 and 9 November 2018, and the reasonableness of the underlying assumptions. This work involved liaising with RCR’s Finance team, in particular the finance managers and the project finance leads, to test the underlying assumptions and therefore the veracity of the forecast cash flows. Also, to provide support to Management in formulating its funding request to the Secured Creditors. The DIRRI (included at Appendix C) provides a summary of the interactions that occurred with representatives of the RCR Group.

- **Contingency planning**: updating and expanding the information gathered during the initial phase of work.
3.11.3 Summary

The scope of these engagements were consistent with the independence guidance prescribed within ARITA’s Code of Professional Practice for prospective external administrator appointments.

Steps were taken to ensure that McGrathNicol remained independent at all times. The partners were required to confirm in the respective engagement letters that the “firm is independent for the purposes of the ARITA Code of Conduct in respect of the Group”. It was always clear to the RCR Group directors and management that the partners were operating in an independent capacity and that the partners could one day be appointed as administrators with investigative powers over the business.
# Recent financial information

This section of the Report sets out historical financial information for the RCR Group and provides comments on the key drivers of the reported results.

## 4.1 Introduction

The RCR Group prepared annual consolidated financial statements, audited by Deloitte.

The Administrators have been provided with these accounts for the financial years ended 30 June 2016 (FY16), 30 June 2017 (FY17) and 30 June 2018 (FY18). Audited financial accounts were not prepared on a stand-alone basis for the individual entities of the RCR Group.

Management has also provided the Administrators with monthly management accounts for FY16, FY17, FY18 and the four months up to October 2018 for each of the RCR Group’s trading entities. The monthly management accounts include statements of financial performance and position, however do not include statements of cash flow.

The Deed of Cross Guarantee enabled RCR to publish its accounts on a consolidated basis. In addition to this, the syndicated facility that RCR Tomlinson had with the Secured Creditors is guaranteed by all entities subject to the Appointment (with the exception of five dormant entities), resulting in each trading entity being jointly and severally liable for secured borrowings.

In this section, the Administrators have presented the consolidated audited accounts of the RCR Group for FY16, FY17 and FY18 and the consolidated (unaudited) monthly accounts for YTD October 2018. Also shown is the pro forma FY18 results as reported in the Prospectus. The pro forma statements reflect the adoption of AASB 15 from 1 July 2017, imposing more stringent requirements on the timing of when revenue can be recognised and costs can be capitalised, as well as the impact of the forthcoming 2018 Capital Raise.

The Administrators have not carried out an audit or verified the financial information presented in this section of the Report. Appendix E contains financial information by each individual entity for the same reporting periods.

## 4.2 Financial performance

A summary of RCR’s Statements of Financial Performance is set out below.

### Table 11: Statement of financial performance

<table>
<thead>
<tr>
<th>$’m</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>Pro forma FY18</th>
<th>YTD Oct-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>890.5</td>
<td>1,263.2</td>
<td>1,998.5</td>
<td>2,069.6</td>
<td>489.9</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(845.0)</td>
<td>(1,189.7)</td>
<td>(1,971.8)</td>
<td>(2,058.3)</td>
<td>(482.7)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>45.5</td>
<td>73.5</td>
<td>26.7</td>
<td>11.3</td>
<td>(7.2)</td>
</tr>
<tr>
<td>Gross margin</td>
<td>5.1%</td>
<td>5.8%</td>
<td>1.3%</td>
<td>0.5%</td>
<td>(1.5%)</td>
</tr>
<tr>
<td>Operating expense</td>
<td>(32.9)</td>
<td>(35.7)</td>
<td>(39.1)</td>
<td>(43.5)</td>
<td>(37.9)</td>
</tr>
<tr>
<td>EBIT</td>
<td>12.7</td>
<td>37.8</td>
<td>(12.4)</td>
<td>(32.2)</td>
<td>(45.1)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4.0)</td>
<td>(3.9)</td>
<td>(2.8)</td>
<td>(2.7)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>8.7</td>
<td>33.8</td>
<td>(15.2)</td>
<td>(34.9)</td>
<td>(46.5)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>0.4</td>
<td>(6.3)</td>
<td>6.4</td>
<td>12.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Net profit from continued operations</td>
<td>9.1</td>
<td>27.5</td>
<td>(8.8)</td>
<td>(22.6)</td>
<td>(32.7)</td>
</tr>
<tr>
<td>Earnings from discontinued operations</td>
<td>(25.2)</td>
<td>(1.8)</td>
<td>(7.3)</td>
<td>(7.3)</td>
<td>-</td>
</tr>
<tr>
<td>Net Income</td>
<td>(16.1)</td>
<td>25.7</td>
<td>(16.1)</td>
<td>(29.9)</td>
<td>(32.7)</td>
</tr>
</tbody>
</table>

Source: Annual audited accounts, the Prospectus and October 2018 management accounts

### Key points:

- RCR’s revenue grew rapidly in FY17 and FY18, primarily as a result of the number of contracts for solar farms entered into during that period. Sales revenue from the infrastructure business unit in FY18 was approximately
$1.5 billion (approximately $1 billion being solar), up 81% from FY17 and 170% from FY16. Energy and Resources also increased in revenue in FY18 against the prior years, by 21% and 10% respectively due to new projects and the successful completion of existing contracts.

- Gross margin was impacted by (amongst other things) the solar farm cost overruns of approximately $57 million, which came to light in July 2018 and related to historical periods (refer section 7.2.1). This write-off alone reduced gross margin from 4.2% to 1.3%.
- The most profitable business unit within the group during FY18 and YTD October 2018 was U&M, recording positive EBIT of approximately $4.3 million and approximately $4.2 million respectively across the two periods. U&M, while experiencing variable monthly revenue throughout the year and requiring a significant amount of working capital, utilised a large casual work force to assist in responding to the changes in monthly work load.
- RCR Group was part of a consolidated tax group, with an income tax benefit recognised in recent periods predominantly due to losses incurred and research and development expenditure.
- Deloitte’s audit opinion relating to FY18 was unqualified, with an emphasis of matter paragraph in relation to the material uncertainty around the RCR Group’s ability to continue as a going concern. The audit opinion was released with the RCR Group’s FY18 financial report on 28 August 2018, being the same day the 2018 Capital Raise was announced.

4.3 Financial position

A summary of RCR’s Statements of Financial Position is set out below.

Table 12: Statement of financial position

<table>
<thead>
<tr>
<th>Summary of financial position</th>
<th>$'m</th>
<th>Jun-16</th>
<th>Jun-17</th>
<th>Jun-18</th>
<th>Pro forma Jun-18</th>
<th>Oct-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and equivalents</td>
<td>15.6</td>
<td>29.7</td>
<td>89.9</td>
<td>178.9</td>
<td>(24.3)</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>111.9</td>
<td>131.1</td>
<td>130.2</td>
<td>130.2</td>
<td>142.3</td>
<td></td>
</tr>
<tr>
<td>Accrued revenue</td>
<td>81.8</td>
<td>285.4</td>
<td>359.9</td>
<td>179.3</td>
<td>199.5</td>
<td></td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>20.0</td>
<td>20.8</td>
<td>29.6</td>
<td>32.5</td>
<td>15.7</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>47.1</td>
<td>50.9</td>
<td>65.1</td>
<td>65.1</td>
<td>62.6</td>
<td></td>
</tr>
<tr>
<td>Other Intangibles</td>
<td>72.1</td>
<td>65.8</td>
<td>69.6</td>
<td>69.6</td>
<td>68.0</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>141.4</td>
<td>141.4</td>
<td>141.4</td>
<td>141.4</td>
<td>141.4</td>
<td></td>
</tr>
<tr>
<td>Other assets (incl. DTA)</td>
<td>54.6</td>
<td>50.8</td>
<td>76.4</td>
<td>91.0</td>
<td>106.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>544.4</td>
<td>775.9</td>
<td>962.2</td>
<td>888.0</td>
<td>711.2</td>
<td></td>
</tr>
<tr>
<td>Current liabilities (incl. trade creditors)</td>
<td>(177.0)</td>
<td>(404.5)</td>
<td>(540.0)</td>
<td>(438.2)</td>
<td>(290.0)</td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>(71.1)</td>
<td>(54.8)</td>
<td>(35.1)</td>
<td>(35.1)</td>
<td>(31.3)</td>
<td></td>
</tr>
<tr>
<td>Other liabilities (incl. income tax liability)</td>
<td>(8.4)</td>
<td>(4.9)</td>
<td>(6.1)</td>
<td>(6.1)</td>
<td>(29.7)</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(256.5)</td>
<td>(464.3)</td>
<td>(581.3)</td>
<td>(479.4)</td>
<td>(351.0)</td>
<td></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>288.0</td>
<td>311.6</td>
<td>380.9</td>
<td>408.6</td>
<td>360.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual audited accounts, the Prospectus and October 2018 management accounts

Key points:

- RCR’s cash balance includes the drawn balance of the MOFA. The increase in cash at June 2018 is predominantly due to RCR delaying payments to trade creditors. While the cash profile of the solar farm projects (large up-front payments) contributed to a positive build-up of cash to begin with, by June 2018 the cumulative net cash flow from solar was near break-even (refer section 7.2.2.2 for further details).
- The pro forma cash figure at 30 June 2018 includes the additional funds to be raised via the capital raise ($89 million net), which had been fully utilised by October 2018. The key uses of these funds included payment of trade creditors, payment of overdue Australian Taxation Office (ATO) debts and further solar project cost overruns, refer section 8.5 for further details.
Trade receivables are recorded net of a doubtful debt provision, and are predominantly agreed before the invoice is raised. In the months leading up to the Appointment, the level and aging of debts remained relatively steady. The line item with the biggest risk in terms of collectability is the ‘Accrued revenue’ (or work in progress), which represents work performed on contracts for customers that has not yet been invoiced. As can be seen in the pro forma numbers, the introduction of AASB 15 made a substantial (adverse) difference to the quantum of these amounts that RCR was able to carry forward as an asset. Further details on the collectability of RCR’s Accrued revenue balance is included at section 8.4.

RCR’s goodwill balance grew over time as RCR acquired various subsidiary businesses, the most recent being the acquisition of the ECS business from WA Water Corporation in FY16. Intangibles relates to brands, customer relationships and order book, technology and patents.

RCR stretched its trade creditors at various times over the months leading to the appointment of Administrators as a means to manage its cash flow. Following the receipt of funds from the 2018 Capital Raise in September 2018, trade creditors were largely brought back within terms. However, the balance owing to trade creditors again increased in October and November 2018. Further details on the movement of this balance over the course of the calendar year 2018 are included at section 8.5.4.

Borrowings reflect the balance of Facility A (refer section 3.6), a senior debt facility with amortisation payments of $5 million per quarter. The MOFA (Facility C), with a limit of $75 million as at June 2018 and $100 million as at October 2018, is incorporated into the ‘Cash and equivalents’ balance to the extent it was drawn.

Amounts relating to bonds, guarantees and letters of credit are classed as contingent liabilities and are therefore not included on RCR’s statement of financial position. At October 2018, a total 143.6 million in secured contingent liability instruments were on issue, along with $113.2 million of unsecured instruments. At the date of this Report, approximately $165.0 million of these had been called by customers and/or lessors, crystallising a debt and increasing RCR’s creditor balance.
4.4 **Cash flow**

A summary of RCR’s Statements of Cash Flows is set out below.

### Table 13: Statement of cash flows

<table>
<thead>
<tr>
<th>Statement of cash flows</th>
<th>$’m</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from customers</td>
<td></td>
<td>1,045.2</td>
<td>1,179.3</td>
<td>2,089.4</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td></td>
<td>(1,050.0)</td>
<td>(1,130.8)</td>
<td>(2,039.5)</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(4.1)</td>
<td>(4.3)</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>0.2</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Net cash generated from/(used in) operating activities</strong></td>
<td></td>
<td>(8.7)</td>
<td>45.2</td>
<td>47.5</td>
</tr>
<tr>
<td>Net payments for PPE</td>
<td></td>
<td>(10.0)</td>
<td>(15.9)</td>
<td>(30.4)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>(10.3)</td>
<td>0.1</td>
<td>(9.9)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td></td>
<td>(20.3)</td>
<td>(15.9)</td>
<td>(40.3)</td>
</tr>
<tr>
<td>Net proceeds from issuing shares</td>
<td></td>
<td>-</td>
<td>-</td>
<td>87.9</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td></td>
<td>3.0</td>
<td>35.0</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td></td>
<td>(20.0)</td>
<td>(50.0)</td>
<td>(20.0)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td>(13.0)</td>
<td>-</td>
<td>(14.1)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>(2.2)</td>
<td>(0.2)</td>
<td>(0.9)</td>
</tr>
<tr>
<td><strong>Net cash generated from/(used in) financing activities</strong></td>
<td></td>
<td>(5.1)</td>
<td>(15.2)</td>
<td>52.9</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td></td>
<td>(34.0)</td>
<td>14.1</td>
<td>60.2</td>
</tr>
<tr>
<td>Cash and cash equivalents in the beginning of the year</td>
<td></td>
<td>49.2</td>
<td>15.6</td>
<td>29.7</td>
</tr>
<tr>
<td>FX movements</td>
<td></td>
<td>0.4</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td></td>
<td>15.6</td>
<td>29.7</td>
<td>89.8</td>
</tr>
</tbody>
</table>

Source: Annual audited accounts

### Key points:

- As stated previously and discussed in more detail in section 7.2.2), the solar farm projects increased the quantum of cash receipts within RCR during FY17 and FY18, however by June 2018, the cost overruns and the delay in receiving final milestone payments had contributed to solar being cash negative (on a cumulative basis) in the period May 2018 to July 2018.

- Payments for PPE included $5 million of leasehold improvements at the head office, as well as $25 million in (net) purchases of plant and equipment.

- Net proceeds of $87.9 million from the 2017 Capital Raise (refer section 3.9.5) were received in September 2017.

- A final dividend for FY17 (6 cents per share, total of $9.9 million) and an interim dividend for FY18 (2.5 cents per share, total of $4.1 million) were paid during FY18. The Board determined not to declare a FY18 final dividend. Refer section 3.9.2 for details of the dividends paid to shareholders during the last five years.

- Detailed analysis of the cash flow between July 2018 and Appointment (the period after those shown in the table above) is included at section 8.5, with the utilisation of the 2018 Capital Raise and the approximately $90 million in cash held at June 2018 being a key consideration for the Administrators in determining the reasons for RCR’s failure as well as the date on which RCR may have become insolvent.

4.5 **Intercompany loans**

A number of the RCR Group entities received and/or provided intercompany loans to other entities within the group. The pre-appointment intercompany loan position remains unreconciled as at the date of this Report. Intercompany loans owing will rank as unsecured creditor claims in the relevant entity, in the event that a dividend to unsecured creditors is declared.
The intercompany loans are likely to hold limited, or no value, with the possible exception of the loan owing to the RCR Group by the Vietnamese subsidiary, subject to a successful sale of that business or its assets.

4.6 Report on Company Activities and Property

Pursuant to section 438B(2) of the Act, each director submitted a Report on Company Activities and Property (ROCAP) in relation to each of the entities subject to the Appointment. A ROCAP is a report summarising the director’s understanding of the financial position of a company as at the date of the appointment of administrators, as well as their view on the reasons for failure.

The ROCAPs provided by the Directors of RCR mirror the Group’s management accounts as at October 2018, as reflected in the tables above.
5 Administrators’ actions to date

This section of the Report provides creditors with details regarding the key activities undertaken by the Administrators and their staff since the Appointment.

The Administrators and their staff have attended to the matters set out below since the Appointment Date.

5.1 Statutory and general obligations

- Notifying major financial institutions of the appointments and establishing control of banking facilities.
- Attending to the Administrators’ statutory duties including informing ASIC, the ATO, the various state revenue offices and other statutory authorities of the appointments.
- Holding meetings with certain Current Directors, as well as the RCR Group’s executive management team and key employees (Management) to understand the background, operating structure and financial performance of the Companies.
- Issuing requests to the Current Directors to complete a ROCAP and deliver the books and records of the Companies to the Administrators.
- Securing the Companies’ books and records including electronic accounting records.
- Liaising with the following key stakeholders, including issuing circulars and being available to answer queries:
  - employees;
  - customers;
  - Secured Creditors;
  - regulators;
  - landlords; and
  - unsecured trade creditors.
- Preparing and issuing ASX and media releases in relation to the progress of the administration and sale of business and asset process.
- Attending to other general matters and statutory requirements.

5.2 Trade-on management

- Liaising with Management in relation to the stabilisation of the business and development of an initial trade-on strategy, and continued reassessment of the trade-on strategy and viability.
- Communicating with customers and suppliers regarding continuity of service on contracts, securing payments and supply.
- Aligning communications between employees and the Administrators and their staff, and establishing escalation processes and procedures.
- Developing revised trading and control policies, together with a list of frequently asked questions with answers in conjunction with Management, and making those available on the McGrathNicol website and internal networks as necessary.
- Reviewing key financial information required for monitoring ongoing trading, including cash flow forecasts and related information.
- Preparing cash flow forecasts and securing required financing via discussion with CBA and preparation of the necessary application to Court.
- Working with RCR’s finance department to prepare financial analysis, including trading profit and loss statements, ongoing trading position statements and estimated outcome statements for the administration period.
• Establishing financial control processes for payroll, payments, purchase orders and document retention matters. Authorising the creation of purchase orders and payment of invoices.
• Liaising with suppliers to establish new accounts and securing ongoing supply of services.
• Liaising with the Secured Creditors about their rights and the Administrators’ trading/asset realisation strategy.
• Liaising with financial institutions in relation to funds held, organising bank sweeps of funds held in the pre-appointment bank accounts to the post-appointment administration bank accounts.
• Authorising purchase orders and maintaining a purchase order register.
• Reconciling cash daily and evaluating the ongoing trading position.
• Issuing correspondence and holding discussions with landlords, including advising them of the Administrators’ appointment and intention to exercise property rights, initial strategy of the administration, and their rights as landlord pursuant to the leases.
• Liaising with Offices of State Revenue in each state regarding payroll tax issues.
• Liaising with legal advisers in relation to certain supplier correspondence.
• Reviewing and assessing claims, negotiating payments and continuation (or exiting) of projects.

5.3 Sale process
• Shortly after the appointment, the Administrators commenced a sale process for the RCR Group’s businesses and assets, seeking to effect a sale on going concern basis.
• Refer section 6 for details of the sales process during the administration period.

5.4 Discontinuing operations
• Winding down of the solar operations shortly after the Appointment, including offering transition handovers and providing support to principals after termination of the EPC Contracts.
• Communicating with key customers and solar farm principals in an effort to reach agreements to mitigate losses, maximise work in progress (WIP) and debtor collections.
• Negotiating hire agreements for RCR owned plant and equipment required for completion of solar farm projects where beneficial to do so prior to ultimate collection of assets for sale.
• Working closely with Management and legal advisers to determine an orderly wind-down project plan, including retention of key employees, head count rationalisation and key stakeholder engagement.
• Working closely with Management and legal advisors to commence action/negotiations relating to potential recoveries from solar projects.
• Winding down the Haden Property Services business (excluding Tasmania and Mount Gambier) the Water East business and the Energy Projects business, following conclusion of the sale processes resulting in no viable purchase offers.

5.5 Asset realisation
• Assessing the WIP and debtor position of each business unit, processing invoices in relation to unbilled WIP and actively pursuing all outstanding debtor collections from customers.
• Engaging agents to perform valuations of RCR owned assets (or assets that vested in RCR) and arranging collection of assets from third party sites.
• Reviewing available options for the sale of RCR owned assets in consultation with a sale agent and executing the agreed asset realisation strategy.
• Determining appropriate treatment for bank guarantees held by RCR and responding to requests to return bank guarantees held by RCR, including correspondence with customers regarding defects.
5.6 Employees

- Ensuring all employees were made aware of their rights and obligations following the appointment of Administrators, the manner in which the administration process affects their entitlements, and responding to employee enquiries, via direct contact, email, staff meetings and Q&A documents.
- Reviewing employee files and RCR’s books and records to understand employment details, and liaising with RCR payroll staff on an ongoing basis.
- Reviewing awards (for each state RCR operated in) and employee contracts to assist with calculating employee entitlements.
- Preparing employee retention and termination letters for both casual and permanent employees, together with separation certificates for terminated employees.
- Liaising with legal advisors regarding employee entitlements and drafting and issuing correspondence to employees where necessary.
- Preparing an employee entitlement model, calculating and reconciling both pre-administration and post-administration employee entitlements.
- Paying accrued employee entitlements for the post-administration period as well as certain pre-administration entitlements.
- Liaising with various government agencies regarding employee matters including the Child Support Agency, WorkCover, Centrelink and the Department of Jobs and Small Business.

5.7 Creditors

- Reviewing RCR’s books and records and issuing notices of appointment and a first circular to creditors convening the First Meetings of Creditors held on 3 December 2018.
- Convening and chairing the First Meetings of Creditors held on 3 December 2018 and preparing and lodging the minutes of the meetings with ASIC.
- Convening and chairing meetings of the Committee of Inspection on 1 February 2019 and 13 March 2019, and preparing and lodging the minutes of the Committee of Inspection meetings with ASIC.
- Preparing and filing an application to Court to seek an extension of the convening period for the second creditors meetings.
- Preparing the Administrators’ Report (i.e. this Report) pursuant to section 75-225 of IPR including:
  - undertaking investigations;
  - making a recommendation to creditors on the future of the RCR Group; and
  - convening the Second Meetings of Creditors.
- Reviewing in detail RCR’s books and records and any proofs of debt received, in order to form a view on the value of the unsecured creditor claims.
- Liaising with purchase money security interest (PMSI) creditors identified from searches of the PPSR in relation to goods supplied under security arrangements.
- Assessing, reviewing and adjudication of claims for retention of title, liaising with claimants and maintaining a register of claims.
- Corresponding with creditors in response to their enquiries.
- Obtaining legal advice in relation to queries from creditors as necessary.
- Preparing updates to frequently asked questions and fact sheets for creditors, and making creditor information available on the McGrathNicol website.
- Responding to legal notices from suppliers, subcontractors and contract principals and seeking legal advice where appropriate.
Liaising with landlords in relation to various branch closure and vacation dates, and issuing formal notices of ceasing to exercise property rights after vacation of sites.

Maintaining and updating an estimated outcome statement to assess estimated outcomes to different classes of creditors throughout the Administration and wind-down process.

5.8  **Secured Creditors and unsecured bond issuers**

- Entering into the Funding Facility with CBA to fund trading operations during the Administration and applying to the Court to limit the personal liability of the Administrators under the Funding Facility.
- Reporting to the Secured Creditors in relation to asset realisations and estimated outcome position.
- Monitoring the position of the secured bank guarantees and unsecured bonds, and liaising with the issuers on same, noting that:
  - in relation to the secured bank guarantees, since appointment, approximately $111.1 million has been called and paid, approximately $3.9 million has either expired or been returned and approximately $25.4 million remains a contingent liability; and
  - in relation to the unsecured bond issuers, since appointment approximately $53.9 million has been called and paid, approximately $6.4 million has either expired or been returned and approximately $28.6 million remains a contingent liability.

5.9  **Investigations**

- Refer section 8 for details of the investigations performed during the administration period.
6 Sale of business process

This section of the Report provides an outline as to the sale of business process undertaken by the Administrators, and summarises the current position with regard to the sale of each entity within the group.

6.1 Summary

Shortly after Appointment, the Administrators commenced an intensive multi-track sale process for the RCR Group’s business and assets (with the exception of the solar business unit). The sale process involved more than 300 interested parties on an accelerated sale process timeline, seeking bids with minimal conditionality, in order to provide certainty of outcomes to creditors and employees.

Noting the time of year and the vulnerability of contract and project businesses such as RCR in insolvency, the sale process commenced immediately after the appointment of Administrators, whilst concurrently the Administrators and their advisers prepared diligence material in anticipation of bidder requirements.

The purpose of the immediate and accelerated sale process was to:

- maximise the chances of achieving a recapitalisation or whole of business sale of the RCR Group as a going concern;
- minimise the impact on employees of the RCR Group and preserve as much as possible the ongoing employment and entitlements of those employees either through a recapitalisation or sale of the RCR Group in whole or in part; and
- provide a better return to creditors of the RCR Group than an immediate winding up the RCR Group.

6.2 Sale process

6.2.1 Engagement of Record Point

After Appointment, the Administrators engaged Record Point Operations (Record Point) to act as their exclusive financial and corporate advisor to assist with the sale process.

The engagement of Record Point provided the Administrators with additional senior, experienced resource bandwidth to engage with a large number of interested parties and prepare detailed diligence material in a short timeframe.

6.2.2 Preparation of information

Due diligence materials were compiled by all business segments for inclusion in a virtual data room to be accessed by interested parties. Due diligence material included operational information for each business unit as well as financial, tax, human resources and contract information.

6.2.3 Engagement with interested parties

The program of engagement with interested parties during the sale process was initially targeted towards the RCR Group’s competitors domestically and internationally. To provide high level information, an investment flyer was prepared and distributed in November 2018 to interested parties, after execution of a non-disclosure agreement.

Following distribution of the investment flyer and receiving a letter from interested parties confirming the level of their interest, vetted interested parties were provided the opportunity to meet with Management and enter the data room.

6.2.4 Stages of the sale process

The sale process for the pre-Christmas period was conducted in two stages.

**Stage One: Data room access and indicative offer**

In stage one, bidders were offered the opportunity to submit an indicative offer to acquire or recapitalise the RCR Group as a whole or any part or parts of the RCR Group.

**Stage Two: Confirmatory Due Diligence**

In stage two, bidders were offered the opportunity to perform confirmatory due diligence and to submit a final legally binding offer. During the confirmatory due diligence process, vetted/qualified bidders were provided with the opportunity
to meet with Management, visit site locations and were provided with further access to detailed operational, legal and financial data.

The initial sale timetable is presented below.

**Table 14: Initial sale timetable**

<table>
<thead>
<tr>
<th>Indicative timetable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process stage</strong></td>
</tr>
<tr>
<td>EOI open (flyer available)</td>
</tr>
<tr>
<td>Preliminary data room access and due diligence</td>
</tr>
<tr>
<td>EOI close, interest reconfirmed</td>
</tr>
<tr>
<td>Non-binding indicative offers due</td>
</tr>
<tr>
<td>Preferred bidders due diligence</td>
</tr>
<tr>
<td>Final bidding offers due</td>
</tr>
</tbody>
</table>

6.2.5 **Whole of business sale vs individual business unit sales**

The initial focus was an effort to sell the RCR Group as a whole (excluding the solar business unit) prior to the Christmas holiday period.

Selling the RCR Group as a whole as opposed to individual business units would have minimised costs, enabled the sale process to be completed in a shorter timeframe and enabled the Second Meetings to Creditors to be held on an earlier date.

Accordingly, between 21 November 2018 (Appointment Date) and 21 December 2018, key industry participants who expressed an interest and showed willingness and ability to transact were progressed rapidly through diligence, management presentations and site visits. Most bidders assembled large deal teams including external advisors in order to meet the accelerated timeline. Those teams engaged with the Administrators’ sale team daily through question and answer sessions, teleconferences and emails.

Concurrently, the Administrators also accepted expressions of interest and engaged with bidders who were interested in individual business units or combinations of business units.

Ultimately, each bidder who had initially engaged in the whole of business sale process concluded that they would not submit final bids for the business as a whole. Some of those bidders focussed their efforts on discrete businesses and made offers on those while others withdrew from the process.

On 21 December 2018, the RCR Rail business was sold to John Holland as a stand-alone business unit. An offer was subsequently accepted for Energy Services from The Environmental Group Limited on 24 December 2018.

In early January 2019, bidders who had previously expressed interest in different parts of the business and had been unable to meet the 17 December 2018 deadline were invited to re-engage and individual sale processes were run for each of RCR’s remaining business units. As part of that process, some parties expressed an interest in bidding on multiple business units.
### 6.2.6 Outcome of the sale process

The diagram below provides an overview of the RCR Group's Australian operations including the status of the going concern sales. Details of the completed sale transactions, the discontinued operations and the ongoing sale processes are provided in sections 6.3 to 6.5 below.

**Figure 4: RCR business unit sale process status**

![Diagram showing RCR business unit sale process status]

**Note 1:** Property Services, while reported within RCR as part of the Infrastructure division, was marketed for sale as a stand-alone division.

**Note 2:** The closure of Haden Property Services excluded the Tasmania and Mount Gambier operations.

### 6.3 Completed sale transactions

As at the date of this Report, the Administrators have successfully executed a sale of the business and/or assets of the following business units:

- Energy Services;
- Rail;
- Laser;
- Mining and Heat Treatment;
- Power, Water West and Resources;
- Upgrades and Maintenance (U&M); and
- Haden Tasmanian operations.

The table below provides details of the key RCR business sales, with additional commentary below.
<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Rail</th>
<th>Energy Services</th>
<th>Laser</th>
<th>Mining, Heat Treatment</th>
<th>Power, Resources, Water West</th>
<th>U&amp;M</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Holland</td>
<td>EGL</td>
<td>Unique Metal Works</td>
<td>NRW</td>
<td></td>
<td>Avidsys</td>
<td>UGL</td>
</tr>
<tr>
<td>Consideration</td>
<td>$19.3 million</td>
<td>$3.0 million</td>
<td>$10.6 million</td>
<td>$10.0 million</td>
<td>Withheld</td>
<td>$8.0 million</td>
</tr>
<tr>
<td>Completion</td>
<td>Completed</td>
<td>Completed</td>
<td>Completed</td>
<td>Completed</td>
<td>Expected 22 March 2019</td>
<td>Completed</td>
</tr>
<tr>
<td>Employee entitlements assumed</td>
<td>$4.5 million</td>
<td>$1.1 million</td>
<td>$1.6 million</td>
<td>$4.2 million</td>
<td>$3.5 million</td>
<td>$1.9 million</td>
</tr>
<tr>
<td>Redundancy entitlements avoided</td>
<td>$6.7 million</td>
<td>$1.1 million</td>
<td>$2.4 million</td>
<td>$5.8 million</td>
<td>$4.7 million</td>
<td>$2.2 million</td>
</tr>
<tr>
<td>FY19 forecast earnings before interest, tax and corporate recharges</td>
<td>$2.3 million</td>
<td>$2.1 million</td>
<td>$2.2 million</td>
<td>$7.3 million</td>
<td>Withheld</td>
<td>$7.8 million</td>
</tr>
<tr>
<td>PPE value included</td>
<td>$0.2 million</td>
<td>$0.02 million</td>
<td>$4.9 million</td>
<td>$3.5 million</td>
<td>Withheld</td>
<td>$0.6 million</td>
</tr>
</tbody>
</table>

As disclosed in the above table, in addition to the consideration received by the Administrators for the sale of the businesses, the purchasers have each assumed a material quantum of employee entitlements and minimised the crystallisation of employee termination entitlements. This has the impact of improving the overall position of RCR’s creditors by reducing the value of claims against the RCR Group. All sale processes contemplate the replacement of bank guarantees and unsecured bonds where possible. Up to $8.0 million of guarantees and $1.9 million of bonds may be recovered as part of sales executed to date.

The consideration paid for each completed business unit sale was considerably higher than the forced closure value of the PPE acquired and in most cases reflected a going concern earnings multiple.
6.3.1 **Sale of the Rail business unit**

On 21 December 2018, the Administrators executed an Asset Sale Agreement (ASA) for the RCR Rail business unit with John Holland Group. The sale completed on 19 February 2019, for $19.3 million consideration.

As detailed in section 3.3.2, the Rail business formed part of the broader RCR Infrastructure business.

The sale of the Rail business preserved the jobs and entitlements of approximately 400 employees.

**Sale engagement**

- 23 interested parties;
- four indicative offers received; and
- one final bid received.

6.3.2 **Sale of the Energy Services business unit**

On 4 January 2019, the Administrators executed an ASA for the RCR Energy Services business unit with The Environmental Group Limited (ASX:EGL). The sale completed on 9 January 2019, for consideration of $3.0 million.

As detailed in section 3.3.2 the Energy Services business formed part of the broader RCR Energy business, which provides maintenance and installation of renewable and conventional-fired generators and boilers.

The sale of the Energy Services business preserved the jobs and entitlements of approximately 50 employees.

**Sale engagement**

- 19 interested parties;
- three indicative offers received; and
- one final bid received.

6.3.3 **Sale of the Laser business unit**

On 25 January 2019, the Administrators executed an ASA for the RCR Laser business unit with Unique Metal Works. The sale completed on 18 February 2019, for $10.6 million consideration.

As detailed in section 3.3.2 the Laser business forms part of the broader RCR Energy business.

The sale of the Laser business preserved the jobs and entitlements of approximately 200 employees.

**Sale engagement**

- 39 interested parties;
- seven indicative offers received; and
- one final bid received.

6.3.4 **Sale of Mining and Heat Treatment business units**

On 31 January 2019, the Administrators executed an ASA for the RCR Mining and Heat Treatment business units with mining and civil contractor NRW Holdings Limited. The sale completed on 14 February 2019, for consideration of $10 million.

As detailed in section 3.3.2 the Mining and Heat Treatment business units were both part of the broader RCR Resources business.

The sale of the Mining and Heat Treatment business preserved the jobs and entitlements of approximately 280 employees.

**Sale engagement**

- 59 interested parties (39 Mining and 20 Heat Treatment);
- 13 indicative offers received (six Mining and seven Heat Treatment); and
- four final bids received (two Mining and two Heat Treatment).
6.3.5 **Sale of Power, Water West, Resources business units**

On 14 February 2019 the Administrators executed an ASA for the RCR Power, Water West and Resources business units with AvidSys Pty Ltd, which is expected to be completed on or around 22 March 2019. The sale consideration has been withheld and will be released following completion.

As detailed in section 3.3.2 the Power and Water West business units were both part of the broader RCR Infrastructure business while the Resources business unit formed part of the broader RCR Resources business.

The transaction, if completed as contemplated, will secure the jobs and entitlements of 150 employees.

**Sale engagement**

- 84 interested parties (27 Power, 41 Water and 16 Resources);
- 14 indicative offers received (three Power, seven Water and four Resources); and
- three final offers received (one for each business unit).

6.3.6 **Sale of the Energy U&M business unit**

On 22 February 2019, the Administrators executed an ASA for the RCR Energy U&M business unit with UGL Operations & Maintenance (Services) Pty Ltd (UGL). The sale completed on 28 February 2019, for consideration of $8.0 million, of which $1.8 million is dependent on certain outcomes.

As detailed in section 3.3.2 the U&M business unit formed part of the broader RCR Energy business.

The sale of the U&M business preserved the jobs and entitlements of approximately 150 employees.

**Sale engagement**

- Eight interested parties;
- two indicative offers received; and
- one final offer received.

6.3.7 **Sale of the Haden Tasmania business**

On 12 March 2019, the Administrators executed an ASA for the RCR Haden Tasmania business with The ETS Group. The sale completed on 12 March 2019, for consideration of $5,000.

The Haden Tasmania business is part of the Property Services business unit which formed part of the broader RCR Infrastructure business.

The sale of the Haden Tasmania business preserved the jobs and entitlements of approximately 18 employees, removing approximately $0.4 million of claims from the RCR creditor pool ($0.15 million in entitlements assumed and $0.25 million in redundancy entitlements avoided).

**Sale engagement**

- Six interested parties;
- one indicative offer received; and
- one final offer received.

6.4 **Discontinued operations**

As at the date of this Report, the Administrators had discontinued and commenced wind downs of the following businesses within the RCR Group:

- Solar;
- Haden Property Services (excluding operations in Tasmania and Mount Gambier);
- Water East; and
- Energy Projects.
6.4.1 Solar
For the reasons set out in section 7.2.1, the solar business unit was incurring significant losses as at the date of Appointment. Consequently, the Administrators were unable to continue to trade this business unit, and announced its shutdown on Appointment.

Since that date, the Administrators have provided the project principals varying levels of support and entered into various transitional arrangements to mitigate potential losses and maximise returns, as well as dealing with suppliers, asset realisations and residual administration.

Claims relating to the solar projects are complex and potentially of considerable value. As a consequence, the Administrators expect the finalisation of all solar farm recoveries and claims to progress into the liquidation. Section 9 of this Report provides further detail on the range of potential recoveries.

6.4.2 Haden Property services (excluding Tasmania and Mount Gambier operations)
Due to a lack of purchaser interest and ongoing trading losses, the Administrators announced the wind down of Haden Property Services (excluding Tasmania and Mount Gambier operations), on 14 February 2019, with the main operations wound down by the end of February 2019.

Since that time, residual administration, asset realisations and branch exits have occurred progressively through March 2019.

6.4.3 Water East
Due to a lack of purchaser interest and ongoing trading losses, the Administrators announced the wind down of Water East on 14 February 2019.

Since that time, residual administration, asset realisations and project withdrawals have occurred progressively through March 2019.

6.4.4 Energy Projects
Due to a lack of purchaser interest, the appointment of an Interim Liquidator over the Energy Projects Malaysia business unit on 12 March 2019 and ongoing trading losses, the Administrators announced the wind down of Energy Projects Australia on 14 March 2019, with all operations ceasing immediately.

6.5 Current business sale engagement
The Administrators continue to engage with interested parties for the remaining unsold business units being the Mount Gambier operations of Haden Property Services, ODG Services and RCR Resolve which continue to attract buyer interest. A further update on the continuing process will be provided at the Second Meetings of Creditors.
6.6  Impact of sales and discontinued operations on employees

The table below summarises the status of employees by employing entity, as at the date of this Report, as a result of the ongoing operations, sale process and decisions made around discontinuing operations.

**Table 16: Employees as at 15 March 2019**

<table>
<thead>
<tr>
<th>Employing entity</th>
<th>At Appointment</th>
<th>Redundancies</th>
<th>Resignations</th>
<th>Transferring</th>
<th>Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCR Tomlinson Ltd</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>RCR Asset Maintenance Pty Ltd</td>
<td>69</td>
<td>(2)</td>
<td>(27)</td>
<td>(40)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Corporate Pty Ltd</td>
<td>140</td>
<td>(42)</td>
<td>(21)</td>
<td>(4)</td>
<td>73</td>
</tr>
<tr>
<td>RCR Energy (Gladstone) Pty Ltd</td>
<td>21</td>
<td>(17)</td>
<td>(3)</td>
<td>(1)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Energy Pty Ltd</td>
<td>507</td>
<td>(5)</td>
<td>(371)</td>
<td>(128)</td>
<td>3</td>
</tr>
<tr>
<td>RCR Energy Service Pty Ltd</td>
<td>58</td>
<td>-</td>
<td>(8)</td>
<td>(50)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Haden Pty Ltd</td>
<td>203</td>
<td>(113)</td>
<td>(47)</td>
<td>(20)</td>
<td>23</td>
</tr>
<tr>
<td>RCR Laser Pty Ltd</td>
<td>194</td>
<td>-</td>
<td>(12)</td>
<td>(182)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Mining Pty Ltd</td>
<td>242</td>
<td>(19)</td>
<td>(38)</td>
<td>(185)</td>
<td>-</td>
</tr>
<tr>
<td>RCR O’Donnell Griffin Pty Ltd</td>
<td>949</td>
<td>(416)</td>
<td>(79)</td>
<td>(370)</td>
<td>84</td>
</tr>
<tr>
<td>RCR Oil &amp; Gas Pty Ltd</td>
<td>3</td>
<td>-</td>
<td>(1)</td>
<td>(2)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Power Pty Ltd</td>
<td>63</td>
<td>(8)</td>
<td>(14)</td>
<td>(38)</td>
<td>3</td>
</tr>
<tr>
<td>RCR Resolve FM Pty Ltd</td>
<td>142</td>
<td>(53)</td>
<td>(11)</td>
<td>-</td>
<td>78</td>
</tr>
<tr>
<td>RCR Resources (Heat Treatment) Pty Ltd</td>
<td>29</td>
<td>-</td>
<td>(1)</td>
<td>(28)</td>
<td>-</td>
</tr>
<tr>
<td>RCR Resources Pty Ltd</td>
<td>106</td>
<td>(58)</td>
<td>(18)</td>
<td>(15)</td>
<td>15</td>
</tr>
<tr>
<td>RCR Water (WA) Pty Ltd</td>
<td>51</td>
<td>(3)</td>
<td>(3)</td>
<td>(44)</td>
<td>1</td>
</tr>
<tr>
<td>RCR Water Pty Ltd</td>
<td>41</td>
<td>(2)</td>
<td>(9)</td>
<td>(30)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,822</strong></td>
<td><strong>(738)</strong></td>
<td><strong>(663)</strong></td>
<td><strong>(1,137)</strong></td>
<td><strong>284</strong></td>
</tr>
</tbody>
</table>

*Source: Administrators’ records*

*Note: Redundancies in RCR O’Donnell Griffin included 346 people from the solar division*
7 Explanation of the Companies’ failures

This section of the Report provides the Board’s and the Administrators’ views on the underlying issues or causes of the failure of the RCR Group.

7.1 Directors’ reasons for failure

The Board has advised that, in their view, RCR failed for the following key reasons:

- refusal of RCR’s Secured Creditors to increase and amend RCR’s existing overdraft facility by a requested $86 million;
- refusal of RCR’s Secured Creditors to provide the Company with a waiver in the event that it breached its gearing covenants; and
- subsequent withdrawal of facilities by the Secured Creditors on 21 November 2018.

7.2 Administrators’ view

While the Administrators agree that the withdrawal of the Secured Creditors’ support ultimately resulted in the Appointment procedurally, the Administrators consider a number of factors and events leading up to that action as the underlying reasons for the failure of the RCR Group.

7.2.1 Industry factors

The following changes or factors within the industries that RCR operated in had a detrimental impact on RCR’s profitability and/or cash flow:

- The sectors in which RCR operates are often low margin with uncertain revenue pipelines. The contract tendering process was competitive, with constant pressure to manage costs, reduce delivery timeframes and in some instances there was considerable risk shifted to RCR in terms of achieving milestones, managing costs and liquidated damages for delay.
- A change in testing requirements requested by Australian Energy Market Operator (AEMO) and Network Service Provider (NSP), which impacted the time and cost incurred by RCR in progressing through the grid testing phase.

7.2.2 Solar business unit

In early 2016, RCR commenced bidding for, and being awarded, contracts for solar farm projects which included the engineering, procurement and construction of solar farms, as well as ancillary solar projects (e.g. battery facilities to store power generated from the solar farms). RCR already had a presence in the Energy sector and employed a workforce which Management considered had many of the requisite skills to enter the renewables market.

After participating in the development of the Broken Hill Solar Farm previously, RCR was awarded its first Early Contractor Involvement contract in March 2016, to provide design and engineering expertise to Origin on its proposed Darling Downs Solar Farm. RCR was subsequently awarded the EPC contract on the Darling Downs Solar Farm in May 2017. In the following eighteen months, RCR was awarded and commenced a total of 15 solar project contracts. The total value of RCR’s EPC contracts was approximately $1.5 billion, significantly increasing RCR’s annual revenue.

The bid and tendering process for the solar farm projects was the same as those adopted by RCR in other business units. There were certain authority limits in place and due to their contract value, entering into the solar projects required Board approval. Details of the contract terms, estimated margin and risk factors were included in the briefing pack presented to the Board.

The Administrators reviewed various monthly reports that were prepared by Management in order to monitor percentage completion and forecast costs to complete the solar projects. Monthly project meetings were also held pre-administration and updates were provided to the Board by Paul Dalgleish, the former CEO and then Bruce James (Interim CEO).
Based on the Administrators’ preliminary investigations, the key issues which presented problems to RCR Management in relation to solar contracts included:

- timing delays (both within and outside of RCR’s control) experienced in various stages of the contracts, predominantly in the completion and commissioning stages (the final stages of the contracts);
- the cash profile of the contracts, with upfront payments received to fund the working capital, however the majority (if not all) of the gross margin being received at completion (which had not been achieved at Appointment for 13 of the 15 solar projects);
- interpretation of the milestone requirements prior to release of payment (for example, significant milestone payments were withheld by principals awaiting documentation, despite the projects being at a point where they were able to energise and generate power from the solar farms);
- limited recourse in contracts for RCR to force timely approvals of extension of time requests, variations and milestone approvals, coupled with requirements to progress with construction to avoid adverse delay claims; and
- the fixed price nature of the contracts, resulting in the majority of cost overruns (including costs incurred and delay liquidated damages) being borne by RCR (subject to limited variations).

### 7.2.2.1 Timing delays on completion

Presented below is a graph of the original expected schedule for completion of RCR’s 15 solar projects against an updated schedule to completion prepared by Management shortly before the Appointment. Delays between original and updated completion occurred for various reasons, including some for which an extension of time was claimed (e.g. where the delay is due to a design change outside of RCR’s control).

**Figure 5: Timeline of solar projects**

RCR’s original expected schedule for completion provided for ten solar projects completing before the Appointment Date. However, RCR only achieved completion on two of these, with the remaining eight being over 97% complete. The
Administrators understand that whilst completion may have been delayed, some of the eight were energised and generating prior to Appointment Date.

External reasons for delay in final completion given by Management include, however are not limited to, the below factors:

- changes to solar farm design by solar farm principals;
- requests for additional testing outside of agreed requirements;
- delays in ability to perform the tests required as a result of delays in the finalisation of connection agreements with AEMO;
- interpretation of milestone requirements impacting expected milestone dates (i.e. additional testing requests or payments withheld for minor documentation not impacting energisation or generation which was not factored into timeframe);
- extended percentage completion/claim negotiations with solar farm contract principals;
- rectification of supplier fault or supply (in some instances extensions of time were sought);
- delays as a result of the need to reorder parts from international suppliers due to goods damaged in transit, faults identified within goods received, incorrect specification of parts received;
- delay in agreements of extension of time request with solar farm principal;
- adverse ground conditions, resulting in delays in the time required to install pilings for the solar panels; and
- differing requirements in relation to the connection stage (e.g. qualified electricians were required in certain states, whereas semi-skilled labourers were sufficient in others).

Aside from the delay in receiving milestone payments and the ongoing funding of costs (including labour, etc.), time delays also had the potential to lead to liquidated damages claims against RCR.

7.2.2.2 Cash profile of solar business unit

In the early stages of most solar contracts, upfront payments were received by RCR, which assisted funding the necessary working capital for each project. Further payments were received as RCR achieved contractual milestones.

In order to recover the milestone-based payments, RCR had to meet certain performance obligations. Outgoings to employees, creditors and other necessary costs to deliver on the solar projects had to be met regardless of whether a milestone was achieved.

Presented below is a graph of the net cumulative cash position of the solar business unit from December 2016, when cash flows in relation to the first EPC contract commenced, to the forecast completion of the projects. This graph reflects the most recent forecasts for each project prepared prior to Appointment.
Key points:

- The upfront payments received at the commencement of each of the solar projects resulted in a strong positive cash flow from December 2016 to the end of 2017, reaching $158.6 million at October 2017 and $152.6 million at December 2017.

- By July 2018, the cumulative cash flow had fallen to ($50.8 million), a $203.4 million net cash outflow in seven months, due to the combined impact of delayed milestone receipts, an increase in costs, and the upfront weighted nature of the payment profile of the contracts.

- As discussed in section 7.2.2.1, timing delays in reaching project milestones and project completion had a significant impact on the cash inflows received during the period from April 2018 to the Appointment Date. Forecast milestone payments during these months were progressively pushed out to later periods as milestones were not met.

- The other key factors impacting the cumulative cash flow forecasts at this time were cost overruns (discussed further below) and liquidated damages claims by solar farm principals.

Note: Of the fifteen solar projects, only thirteen are presented in the graph, due to the availability of information.
7.2.2.3 Cost overruns

The solar projects that RCR entered into were typically EPC contracts, with RCR responsible for delivery of the projects, typically for a fixed contract sum (subject to variations). All risk of cost overruns was borne by RCR (unless agreed to as variations), with significant cost overruns occurring on a number of the contracts during 2018.

The Administrators note that Management became aware of a number of cost overruns which it identified during 2018 and reported to the Board. The most material cost overruns are discussed below, noting that the Administrators’ review to date has not been exhaustive on all projects and we understand that there were other instances of costs exceeding initial forecasts.

Project Gretel

The most significant cost overruns occurred on the Daydream and Hayman solar projects. RCR announced to the market on 11 August 2017 that it had been awarded the EPC and O&M contracts for the Daydream and Hayman solar farms in Northern Queensland. This combined project was referred to by RCR as ‘Project Gretel’. The original margin forecast for Project Gretel was approximately $28.5 million.

During the initial phases of construction, RCR experienced significant execution delays, specifically relating to adverse ground conditions, impacting the time and cost incurred in installing the piling for the solar panels. These delays resulted in RCR readjusting its forecast time and cost to completion in April 2018, reducing the forecast margin to approximately $11.5 million. The cumulative cash flow profile of these two projects according to the forecast prepared in April 2018 is presented in the graph below.

Figure 7: Net cumulative cash of Daydream and Hayman solar projects (April 2018 forecast)

In July 2018, it came to light that further cost overruns had occurred on Project Gretel. The significance of these cost overruns resulted in the Board calling a trading halt on 30 July 2018 (refer section 3.9.4) and commencing an internal investigation.

At the conclusion of this investigation, it was reported that the total cost overruns on Project Gretel (including the initial decrease reflected in the April 2018 reforecast) was approximately $57 million. This reduced the forecast $28.5 million profit to a forecast $28.5 million loss. As at the Appointment Date, the Daydream and Hayman contracts were 97.5% and 97.1% complete respectively.

Other solar projects

Further cost overruns were reported to the Board at the end of October 2018 on two different projects in the amount of $11 million and $5 million respectively. It was also noted at the same board meeting that a provision of $5 million had been added to the forecast for a third individual solar farm project.
7.2.3 Voluntary suspension

As previously noted, on 30 July 2018, RCR shares were placed into a trading halt and were subsequently voluntarily suspended from quotation on 1 August 2018. The suspension was announced due to cost overruns that had been “recently discovered on a project” and were expected to have a material negative impact on the financial performance of RCR. The project in question was Project Gretel, discussed above.

During the month of August 2018, RCR negotiated an underwriting agreement with Macquarie Capital (Australia) Limited for the 2018 Capital Raise, discussed in section 3.9.4, which was announced to the market on 28 August 2018. RCR shares re-commenced trading on 30 August 2018, 30 days after the voluntary suspension was announced.

RCR directors, as well as Management, advised that the length of the abovementioned voluntary suspension had a significant negative impact on the stability of the business, and RCR being awarded new tenders. Confidence in the financial strength of RCR was adversely impacted, resulting in hesitation from contract principals to award new contracts to not only the solar business unit, but also the Rail and Resources business units.

7.2.4 Other business units

Based on the Administrators’ investigations to date, while the other business units were experiencing some difficulties in winning contracts (as discussed above) and settling certain claims, no material circumstances have come to the Administrators’ attention outside of the solar business unit, that were significant enough to have made a quantifiable contribution to RCR’s failure.

7.3 Conclusion

Based on the Administrators’ preliminary investigations, the following key issues and events contributed to the insolvency of RCR and the subsequent appointment of the Administrators:

- RCR entered into fifteen EPC Contracts, with a total value of approximately $1.5 billion in the space of eighteen months, introducing a significantly different risk profile into the Group, without any noticeable change in the Group’s governance or risk structures to manage these risks;
- various solar contracts experienced timing delays and cost overruns, the most significant being those experienced on Project Gretel;
- once the Project Gretel cost overruns were uncovered, the shares in RCR Tomlinson went into voluntary suspension for a period of 30 days, which had a significant adverse impact on the reputation of the business and its ability to successfully tender for new projects (in solar and other business units);
- the RCR Board announced the 2018 Capital Raise in order to fund the Project Gretel cost overruns, as well as raise additional working capital, as discussed in section 3.9.4; and
- whilst the capital raise was successful in raising $100 million in gross proceeds, RCR’s cash position continued to deteriorate as described and analysed in the following sections of this Report (specifically section 8.5). The Administrators’ analysis shows that RCR’s cash flow position and forecast continued to deteriorate as solar milestone payments were delayed and pipeline projects failed to eventuate. This decrease in receipts led to RCR stretching its creditors and requesting additional funding from its lenders, a request which was ultimately declined.
Administrators’ investigations and potential avenues for recovery

This section of the Report informs creditors about the investigations undertaken by the Administrators to date, and sets out whether any potential recovery actions have been identified that may be available to a liquidator to pursue for the benefit of creditors.

8.1 Overview

The Administrators are required to investigate and report on whether there are any potential recoveries or actions available in a liquidation, or any transactions that appear to be voidable pursuant to the Act whereby a liquidator (if appointed) may be able to recover money or property for the benefit of creditors.

These investigations enable the Administrators to form an opinion on each of the three possible options available to creditors to vote at the Second Meetings of Creditors, including an opinion as to which of the three options is in the best interests of creditors in accordance with section 75-225(3)(b) of the IPR.

8.2 Investigations undertaken

The Administrators, with input from independent legal advisors, have investigated the RCR Group’s business, property, affairs and financial circumstances in accordance with section 75-225(3) of the IPR.

The investigations undertaken include, but were not limited to:

- a review and analysis of RCR Group’s financial accounting information and other books and records;
- a review of RCR Group’s board minutes for the three years prior to the Appointment Date;
- a review and analysis of records from the ATO;
- discussions with certain Board members;
- discussions with Management;
- discussions with RCR Group’s legal and other advisors;
- an analysis of the various banking and loan facilities and other financing arrangements;
- consideration of cash and funding available to RCR Group and its liabilities in the 18 months prior to the Appointment Date;
- a review of material transactions appearing in RCR Group’s bank statements in the two years prior to the Appointment Date;
- a review of various transactions leading to the appointment of the Administrators;
- a review of statutory payments and accrued employee entitlements;
- a significant number of key word searches on the forensic image obtained from RCR Group’s computer records and review of the results;
- ASIC and PPSR searches and searches of other databases available to the Administrators; and
- a review of litigation on foot at the Appointment Date.

ARITA has issued an information sheet titled “Offences, Recoverable transactions and insolvent trading”, providing general information for creditors about insolvent trading and voidable transactions. A copy of this information sheet is provided at Appendix I of this report.

8.3 Determining the date of insolvency

A crucial element of most statutory recovery actions available to liquidators is to establish the date when the entity/entities subject to their appointment became insolvent.

In determining the solvency of RCR, the Administrators have considered the following:

- the definition of insolvency contained in section 95A of the Act;
- case law and ASIC guidance on indicators of insolvency; and
8.3.1 **Section 95A of the Act**

Section 95A of the Act states that:

"95A(1) A person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable.

95A(2) A person who is not solvent is insolvent."

There are two generally accepted financial tests to determine whether a company is insolvent, being the 'balance sheet' test and the 'cash flow' test:

- the balance sheet test, which indicates that an entity is solvent so long as it has positive net assets and can eventually meet its liabilities from its assets. The balance sheet test has no regard to the timing of the payment of debts. Section 8.4 of this Report outlines the Administrators' findings in this regard; and

- the cash flow test, which involves an assessment of whether an entity's immediately available (or readily realisable) assets are sufficient to meet its due and payable debts. Section 8.5 of this Report outlines the Administrators' findings in relation to the cash flow test.

The cash flow test is considered to be more closely aligned to address the requirements of section 95A of the Act than the balance sheet test. However, the balance sheet test is useful in providing context for the proper application of the cash flow test. Accordingly, the Administrators have considered both tests in undertaking their assessment as to the point of insolvency for RCR, as set out in the following sections.

8.3.2 **Indicators of insolvency**

In ASIC v Plymin, Elliot & Harrison (2003) VSC 123, Mandie J referred to a list of indicators of insolvency when considering the application of the solvency test. These have become commonly accepted indicators in the Australian insolvency industry.

ASIC has also issued Information Sheet 42 titled “Insolvency: a guide for directors”. In this document, ASIC has set out twenty-two indicators of insolvency.

Section 8.6 of this report outlines the Administrators' comments in relation to the indicators of insolvency.

8.3.3 **Books and records**

One of the matters the Administrators are required to provide an opinion on is whether RCR's books and records were maintained in accordance with the requirements of section 286 of the Act.

Section 286 of the Act requires that a company must keep written financial records that:

- correctly record and explain its transactions and financial position and performance; and

- would enable true and fair financial statements to be prepared and audited.

Failure to maintain books and records in accordance with the Act provides a presumption of insolvent. This presumption can be relied upon by a liquidator in an application for compensation for insolvent trading, together with other actions for recoveries pursuant to the Act from Directors and other related parties.

The Administrators consider that a company operating a business such as the business of RCR should, as a minimum, maintain the following books and records in order to comply with the provisions of the Act:

- accounting files and associated working papers;

- bank statements and transaction histories;

- management accounts;

- financial statements and audited financial reports;

- supporting documentation for transactions;

- payroll records;

- minutes of board meetings and of board sub-committees;
asset listings;
statutory and taxation records;
debtor and creditor listings;
lease contracts and agreements; and
intercompany transactions and balances (the Administrators note that it has not been possible to reconcile RCR's intercompany loan position).

The Administrators are of the opinion that the RCR Group complied with the requirements set out at section 286 of the Act and, consequently, there would be no presumption of insolvency argument available to an appointed liquidator as a result of a lack of compliance with the Act.

Notwithstanding compliance with the Act, the Administrators consider the books and records, particularly from June 2018, may not have accurately reflected RCR’s true financial position, with retrospective write downs occurring in relation to solar projects and a lack of provision for potential future losses under these contracts.

8.3.4 Basis of solvency assessment
In forming an opinion as to the solvency of each of the entities that make up RCR, the Administrators have considered the solvency of RCR as a whole.

The Administrators adopted this approach for the following reasons:

as outlined at section 3.2.1, 26 of the entities within the RCR Group entered into a Deed of Cross Guarantee on 22 June 2011 pursuant to ASIC Class Order 98/1418. The Deed of Cross Guarantee had the effect of:

- allowing RCR to prepare consolidated annual financial statements, incorporating all entities controlled by RCR Tomlinson Ltd and its subsidiaries; and
- ensuring that if an entity which is a party to the Deed of Cross Guarantee is wound up, the other entities which are also parties to the Deed of Cross Guarantee, guarantee the repayment of the amounts owed to the creditors of that entity; and

the Deed of Cross Guarantee allows creditors who are owed amounts by one entity within RCR to participate and vote as contingent creditors of the other entities within RCR, which are parties to the Deed of Cross Guarantee.

Consequently, in order to determine the solvency or otherwise of one entity that is a party to the Deed of Cross Guarantee, the solvency of all other entities within the Deed of Cross Guarantee must be taken into account.

In addition to the existence of the Deed of Cross Guarantee, the following factors make it appropriate to examine the solvency of RCR as a whole:

as allowed for by the Deed of Cross Guarantee, RCR prepared consolidated financial statements for lodgement with ASIC and release on the Australian Securities Exchange (ASX);

all financial resources within RCR Group companies were available to their related entities to satisfy its debt, therefore an assessment as to an RCR entity’s solvency must consider the collective cash reserves, assets and capacity to borrow of the entire Group;

the syndicated facility was secured over all RCR Group entities (with the exception of five dormant entities, which also were not party to the Deed of Cross Guarantee) with each entity being jointly and severally liable for secured borrowings;

the interim CEO was a director of RCR Tomlinson Ltd, and all other entities over which the Administrators were appointed; and

administrative functions for the vast majority of RCR’s operations were centralised and carried out in the Sydney, Melbourne and Perth offices, with group-wide accounting adopted including charge-backs for intra-group services provided.

Noting the above factors, the solvency of A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) and RCR Asset Maintenance Pty Ltd is directly linked to the solvency of the rest of the Group.
8.4 Balance sheet analysis

The balance sheet test specifies that a person or company is insolvent if its total liabilities exceed the value of its total assets, i.e. there are insufficient assets to discharge its liabilities at a point in time.

Summarised in the following table is RCR’s statements of financial position, as recorded in its audited annual accounts and its management accounts to 31 October 2018 (being the last set of monthly accounts prepared prior to the Appointment).

Table 17: Statement of financial position

<table>
<thead>
<tr>
<th>$’m</th>
<th>Notes</th>
<th>Jun-16</th>
<th>Jun-17</th>
<th>Jun-18</th>
<th>Pro forma Jun-18</th>
<th>Oct-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and equivalents</td>
<td>15.6</td>
<td>29.7</td>
<td>89.9</td>
<td>178.9</td>
<td>(243)</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>111.9</td>
<td>131.1</td>
<td>130.2</td>
<td>130.2</td>
<td>142.3</td>
<td></td>
</tr>
<tr>
<td>Accrued revenue</td>
<td>1</td>
<td>81.8</td>
<td>285.4</td>
<td>359.9</td>
<td>179.3</td>
<td>199.5</td>
</tr>
<tr>
<td>Inventory and other</td>
<td>200.0</td>
<td>20.8</td>
<td>29.6</td>
<td>32.5</td>
<td>15.7</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>229.3</strong></td>
<td><strong>466.9</strong></td>
<td><strong>609.6</strong></td>
<td><strong>520.9</strong></td>
<td><strong>333.1</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>47.1</td>
<td>50.9</td>
<td>65.1</td>
<td>65.1</td>
<td>62.6</td>
<td></td>
</tr>
<tr>
<td>Other Intangibles</td>
<td>2</td>
<td>72.1</td>
<td>65.8</td>
<td>69.6</td>
<td>69.6</td>
<td>68.0</td>
</tr>
<tr>
<td>Goodwill</td>
<td>2</td>
<td>141.4</td>
<td>141.4</td>
<td>141.4</td>
<td>141.4</td>
<td></td>
</tr>
<tr>
<td>Other assets (incl. DTA)</td>
<td>3</td>
<td>54.6</td>
<td>50.8</td>
<td>76.4</td>
<td>91.0</td>
<td>106.0</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td><strong>315.1</strong></td>
<td><strong>309.0</strong></td>
<td><strong>352.6</strong></td>
<td><strong>367.1</strong></td>
<td><strong>378.1</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>544.4</strong></td>
<td><strong>775.9</strong></td>
<td><strong>962.2</strong></td>
<td><strong>888.0</strong></td>
<td><strong>711.2</strong></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(227.0)</td>
<td>(424.7)</td>
<td>(576.7)</td>
<td>(439.7)</td>
<td>(290.0)</td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(29.5)</td>
<td>(39.5)</td>
<td>(4.5)</td>
<td>(4.5)</td>
<td>(61.0)</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>(256.5)</strong></td>
<td><strong>(464.3)</strong></td>
<td><strong>(581.3)</strong></td>
<td><strong>(444.3)</strong></td>
<td><strong>(351.0)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>288.0</strong></td>
<td><strong>311.6</strong></td>
<td><strong>380.9</strong></td>
<td><strong>443.7</strong></td>
<td><strong>360.2</strong></td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.01</td>
<td>1.10</td>
<td>1.06</td>
<td>1.18</td>
<td>1.15</td>
<td></td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.92</td>
<td>1.05</td>
<td>1.01</td>
<td>1.11</td>
<td>1.09</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual audited accounts, the Prospectus and Oct-18 management accounts

Note 1: Accrued revenue

- Accrued revenue (or work in progress) is not readily collectable until the deliverable, relevant to the accrued revenue, has been completed, delivered and/or sold and accepted by the client. A material portion of accrued revenue is not considered readily available to be realised to discharge amounts due to creditors.

Note 2: Intangible assets

- Other intangibles relate to brands, customer relationships and order book, technology and patents.
- RCR’s goodwill balance has grown over time as RCR acquired various subsidiary businesses, the most recent being the acquisition of the ECS business from WA Water Corporation in FY16.
- Intangible assets are not generally considered available to be realised to discharge amounts due to creditors, in particular goodwill which has no value in its own right, and is instead a reflection of the value of the business as a going concern.

Note 3: Deferred tax assets

- RCR had a growing deferred tax asset, predominantly due to accounting losses incurred. The Administrators consider this to be an asset which RCR was unlikely to be in a position to utilise in the near future.

RCR reported surplus net assets as at each date shown above, having increased by $92.9 million in the two year period from 30 June 2016 to 30 June 2018. The increase in net assets over this period predominantly relates to the build-up of accrued revenue from solar farm projects.
A positive net asset position in the two years prior to the Appointment Date would suggest that RCR remained balance sheet solvent. However, taking into account the notes outlined above on accrued revenue and intangible assets, the Administrators consider the balance sheet test on its own to be insufficient when considering the solvency position of RCR.

In the event that RCR goes into liquidation, further analysis would be performed by the appointed liquidator to apply adjustments to the balance sheet (for example reducing the availability of accrued revenue and intangible assets) in order to assess the date at which RCR became balance sheet insolvent.

8.5 Cash flow analysis

An assessment of a company’s solvency position on a cash flow basis requires a review of the company’s ability to meet its ongoing liabilities from its available cash and/or other resources. As noted above, this is consistent with the “solvency” test under Australian law as set out in section 95A of the Act.

In making an assessment of RCR’s solvency position on a cash flow basis, the Administrators have considered the following at each month end over the period May 2018 to the Appointment Date:

- available cash holdings;
- access to funding;
- due and payable liabilities;
- FY19 forecast and revised forecast cash flows;
- a cash flow forecast dated 10 August 2018;
- cash flow forecasts dated 12 October 2018 and 31 October 2018; and
- a revised cash flow forecast dated 9 November 2018 presented to RCR’s Secured Creditors (including restructuring initiatives) as a part of its request for an increase in facility limits.

8.5.1 Management’s forecast cash flow

RCR’s finance department maintained a rolling cash flow forecast, which was reconciled to actual cash on a regular basis. The cash flow was presented to Management.

The cash flow forecast was not prepared on the basis that payments would be made to creditors as and when they fell due at all times during the analysis period. At certain points in time, Management deferred payment to creditors (refer to trade creditor ageing at section 8.5.4).

The Administrators have reviewed the basis of preparation and underlying assumptions of Management’s cash flow forecast. From this, the Administrators consider that the process to prepare the forecast was robust in terms of who was involved, however the cash flow forecasts, in particular those prepared in August and October, proved optimistic due to deficiencies in the assumptions underpinning the forecasts.

Management does not appear to have applied sufficient scepticism in challenging the assumptions, particularly in relation to the timing of milestone payments and new project wins. These issues are evident from the material revisions made to the cash flow forecasts over the analysis period and the reasons for those revisions.
Four of Management’s cash flow forecasts are illustrated in the graph below:

**Figure 8: RCR Group net debt forecasts**

10 August 2018 (grey dotted line)
The 10 August 2018 forecast was prepared just prior to the issuing of the Prospectus (and did not include the estimated 2018 Capital Raise funds). It showed that the $100 million sought through the 2018 Capital Raise was forecast to be sufficient to remain within the agreed facility and, indeed, return to a consistently positive cash position by the end of December 2018.

12 October 2018 (light blue dotted line)
The 12 October 2018 forecast was prepared once the majority of the 2018 Capital Raise funds had been exhausted. It was presented to the Secured Creditors in late October 2018 as, while it showed no additional funding requirement, at that point in time RCR expected to breach an earnings covenant in December 2018 and was seeking a waiver.

31 October 2018 (blue dotted line)
The 31 October 2018 forecast is an updated version of the 12 October 2018 forecast, incorporating actuals for the month of October, reflecting further cost overruns which had come to light and the impact of new projects, previous forecast which had failed to eventuate.

9 November 2018 (black dotted line)
The 9 November 2018 forecast was prepared following McGrathNicol’s phase two review and showed a significant funding requirement from as early as mid-December 2018. This forecast, incorporating additional restructuring adjustments, formed part of RCR’s request to the Secured Creditors for additional funding.
8.5.2 Movements in forecast cash flow

The chart below illustrates the key movements between the 10 August 2018 cash forecast, and the actual cash flow of RCR to 16 November 2018.

**Figure 9: Impact of infrastructure cash flows on forecast net debt**

The cash flow movements for August, September, October and November 2018 in the above chart relate to the RCR Infrastructure business unit only, which predominantly relates to the solar farm projects.

The split between variances in receipts and in payments is summarised in the below table.

**Table 18: Summary of cash flow variances**

<table>
<thead>
<tr>
<th>Summary of variances</th>
<th>Aug-18</th>
<th>Sep-18</th>
<th>Oct-18</th>
<th>Nov-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td>(29.8)</td>
<td>(17.1)</td>
<td>(92.4)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Payments</td>
<td>(41.6)</td>
<td>(36.7)</td>
<td>50.6</td>
<td>34.6</td>
</tr>
<tr>
<td>Total variance</td>
<td>(71.4)</td>
<td>(53.8)</td>
<td>(41.8)</td>
<td>32.9</td>
</tr>
</tbody>
</table>

Over August and September, receipts were less than forecast while payments were materially higher. Receipts continued to be lower than forecast in October and November (after the 2018 Capital Raise) and Management began to compensate by reducing payments to creditors ahead of a request for further funding from the Secured Creditors.

The greatest variance to the 10 August 2018 forecast occurred in October 2018, where receipts were $92.4 million below the 10 August 2018 forecast. RCR responded by deferring payments to creditors as it did not have sufficient funds available to satisfy these creditors. The reduced receipts were primarily a function of solar project milestones not being achieved and RCR not being awarded new tenders to support the forecast level of receipts.
8.5.3 Availability of funds

As part of the 2018 Capital Raise arrangements, the CBA agreed to reallocate the MOFA commitments so that an additional $25 million was available under the group overdraft sub facility. There was also a corresponding $25 million reduction in headroom that was previously available under Facility B of the SFA. The reallocation under the MOFA resulted in a corresponding reduction of $25 million in the contingent instrument sub facility under the MOFA.

The purpose of the MOFA reallocation was to assist RCR manage its working capital requirements.

A summary of RCR’s available cash and MOFA facility headroom is presented in the below table.

Table 19: Summary of available cash resources

<table>
<thead>
<tr>
<th>Summary of available cash resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
</tr>
<tr>
<td>Facility headroom</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Key points:

- Cash reserves and the MOFA facility headroom peaked at the end of June 2018 which was supported by RCR stretching creditors at financial year end. Headroom increased again at the end of September 2018 following receipt of the proceeds from the 2018 Capital Raise.
- At month-end July, August and October 2018 RCR had very limited cash at bank and available facility headroom to immediately satisfy its creditors.
- At Appointment, RCR’s net available cash resources were nil due to bank accounts being in overdraft and CBA withdrawing overdraft facilities and exercising set-off rights in relation to certain of the Group’s bank accounts.

8.5.4 Trade Creditor ageing profile

Illustrated in the graph below is RCR’s creditor ageing profile between June 2017 and October 2018.

Figure 10: Trade creditor aging

Key points:

- Creditor balances materially increased leading up to 30 June 2018, RCR’s financial year end.
- Significant payments were made to creditors in July 2018 and September 2018 utilising cash reserves and the 2018 Capital Raise proceeds respectively.
Creditor balances began to materially increase again from October 2018.

8.5.5 Statutory creditors

The Administrators reviewed the position in relation to statutory creditors (e.g. PAYG and payroll tax) and note that, historically, RCR paid statutory creditors as they became due.

The graph below illustrates the movement in amounts due to the ATO over the period between May 2018 and the Appointment Date.

**Figure 11: ATO running account**

Whilst the Administrators have not found any evidence of systematic late lodgement and/or payment of RCR’s statutory returns or obligations, the Administrators’ review showed that payments due to the ATO appear to have been withheld during the months of August 2018 and September 2018. Amounts due to the ATO were repaid in full in October 2018, after the proceeds from the 2018 Capital Raise were available.

The Directors advised that RCR entered into a payment arrangement with the ATO to defer payment of approximately $3.9 million owing from the September 2018 business activity statement. The Administrators have requested a copy of RCR’s file from the ATO to verify RCR’s dealings with the ATO. As at the date of this report, a response has not been received from the ATO.

Prima facie, RCR was unable to satisfy its debts to the ATO as and when they fell due in late-July 2018 and late-October 2018.

8.5.6 Suspension of facilities

In early November 2018, it became clear to the RCR Board that the Group was likely to breach its banking covenants in December 2018. At that time, RCR’s cash flow forecast (dated 31 October 2018) showed that it could continue to trade within its facility limits. However, a revised forecast (dated 9 November 2018) showed that additional funding would be required by the Group.

Various discussions were held with the Secured Creditors in the month of November, culminating in RCR putting a formal request for funding to the Secured Creditors on 20 November 2018. This request was denied, CBA withdrew the overdraft facilities under the MOFA and exercised rights of set-off in respect of certain of the Group’s bank accounts. The RCR Board immediately made the Appointment.

8.6 Indicators of insolvency

In ASIC v Plymin, Elliot & Harrison (2003) VSC 123, Justice Mandie established a list of fourteen indicators of insolvency that have become common law precedent to assess whether an entity is insolvent.

Having investigated the reasons for RCR’s failure, the Administrators consider the following indicators to apply to RCR:

- Ongoing losses (refer section 4.2);
- Poor operating cash flow (refer section 8.5);
Inability to accurately forecast (refer section 8.5);

Trade creditor issues (refer section 8.5.4 and 8.5.5); and

Loss of key personnel and board resignations, with the CEO, the CFO and a non-executive board member all resigning within the three months preceding the Appointment.

8.7 Administrators’ conclusions regarding solvency

Solvency is a question of fact to be ascertained from a consideration of a company’s financial position as a whole. Australian Courts have determined that the primary test of solvency is the cash flow test.

The Administrators’ preliminary investigations indicate that, whilst RCR was certainly insolvent when the Secured Creditors withdrew support on 21 November 2018 (i.e. the Appointment Date), for the reasons outlined below, a liquidator may conclude that RCR became insolvent earlier.

Whilst a liquidator would be required to undertake more detailed investigations to ascertain the exact point of insolvency, in forming their preliminary view, the Administrators have considered the following:

- The balance sheet test suggests that the RCR Group remained balance sheet solvent until the Appointment Date. Consequently, the Administrators focused their analysis on the cash flow test.

- The cash flow analysis undertaken by the Administrators showed that, in general, creditors were brought within terms in September 2018 when funds became available from the 2018 Capital Raise. With creditors paid within terms (in general), and RCR’s Secured Creditors continuing to support the business (with significant headroom remaining within the existing facility) throughout September 2018 and until the Appointment Date, the cash flow test does not conclusively identify the date at which RCR became insolvent.

- However, indicators of insolvency were apparent in RCR from as early as August 2018, when significant cost overruns were identified in the Daydream and Hayman solar farm contracts and those overruns were forecast to render the projects unprofitable. At that time, Management and the Board considered that the cost overruns were isolated to these two projects, and that the funds sought through the 2018 Capital Raise would be sufficient to address the issue, however further cost overruns had been identified on those and other projects by the end of October 2018.

- When the October 2018 month end accounts were produced, the creditor aging profile had increased from the prior month, showing debts incurred were not being paid as and when due.

- On 9 November 2018, Management’s cash flow, which incorporated further cost overruns and delays, as well and changed assumptions on work winning, identified a funding requirement arising within two weeks. Additional funding was sought from the Secured Creditors, however the Secured Creditors declined the request and withdrew the MOFA facility.

In considering the matters identified from the Administrators’ investigations as outlined above, the Administrators consider that RCR was certainly insolvent at the Appointment Date, but potentially become insolvent at the end of October 2018 or earlier.

Further investigations by an appointed liquidator will establish the precise date that RCR became insolvent.

8.8 Insolvent trading

8.8.1 Directors’ liability

Pursuant to section 588G of the Act, a director of a company has a duty to ensure that the company does not incur debts that it is unable to pay, i.e. that it does not trade whilst insolvent.

In the event that a company is placed into liquidation, and insolvent trading is found to have occurred, the directors are personally liable for the debts incurred during that time. Before a court will order that a person pay compensation in respect of insolvent trading, a liquidator must establish that:

- the person was a director of the company at the time the company incurred the debt the subject of the claim;
- the company was insolvent at that time or became insolvent by incurring the debt;
- at that time, there were reasonable grounds for suspecting that the company was insolvent or would become insolvent by incurring the debt; and
- the debt, which is the subject of the claim, was wholly or partly unsecured and the creditors with outstanding amounts suffered loss and damage.

There are various statutory defences available to directors in defending an insolvent trading claim, as set out in section 588H of the Act. In summary, these are that the director:

- had reasonable grounds to expect that the company was solvent at the time the debt was incurred;
- had reasonable grounds to believe, and did believe, that a competent, reliable person was responsible for providing adequate information on the company’s solvency and that person fulfilled that responsibility. On the basis of such information, the director believed that at the time the debt was incurred, and considering the other debts existing at that time, the company was solvent and remained solvent;
- was ill (and therefore did not take part in management) at the time the debt was incurred; and
- took reasonable steps to prevent the debts being incurred.

In addition to statutory defences, section 588GA of the Act was introduced in September 2017, providing a protection for directors against insolvent trading claims, in certain circumstances. The Safe Harbour legislation was introduced to encourage directors, in circumstances where their company’s solvency is in question, to formulate and take courses of action that it expects to result in a better outcome than the immediate appointment of an administrator or liquidator.

The protection is available in circumstances where, as soon as the director suspected that the company was or could become insolvent, they engaged in activities that were reasonably likely to lead to a “better outcome” for the company, and any new debts from that time were incurred directly or indirectly in relation to those activities.

### 8.8.2 Holding company’s liability

A holding company can also be held liable for the insolvent trading of its subsidiary (pursuant to section 588V of the Act) in circumstances where:

- the company was a holding company of the subsidiary at the time the debts were incurred by the subsidiary; and
- the subsidiary was insolvent when it incurred the debts; and
- at the time there were reasonable grounds for suspecting insolvency; and
- the holding company or at least one of its directors was aware of the grounds for suspecting insolvency, or “having regard to the nature and extent of the corporation’s control over the company’s affairs and to any other relevant circumstances”, it was reasonable to expect the holding company or one of its directors to be aware of the grounds for suspecting insolvency.

A claim against RCR Tomlinson Ltd for the insolvent trading of any of its subsidiaries would involve the same set of facts as a claim against the Directors and, in any case, this would be an unsecured claim against an insolvent entity.

### 8.9 Voidable transactions

Pursuant to Part 5.7B of the Act, certain transactions that occurred prior to the Appointment Date, including where property was disposed of or dealt with, are potentially recoverable by a liquidator.

This may result in, amongst other things, a requirement for a third party to return property and/or money and thereby increase the assets available to the liquidator and creditors. These transactions are known as voidable transactions.

Corporations Regulation 5.3A.02 requires an administrator to specify whether there are any transactions that appear to the administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.

It is important to note that a number of voidable transactions can only be recovered if the company in question is proven to have been insolvent at the time of the transaction. As set out at section 8.7 of the Report, the Administrators’ preliminary opinion is that RCR may have been insolvent from at least 1 November 2018.

The main voidable transactions that require insolvency to be established are:

- **unfair preferences**: transactions between the insolvent entity and a creditor resulting in the creditor receiving from the insolvent entity, in relation to an unsecured debt owed to the creditor, a greater amount than the creditor would have received in relation to the debt in a winding up of the company; and
- **uncommercial transactions**: transactions which a reasonable person in the place of the insolvent entity would not have entered into, taking into account the benefits and the detriment to the insolvent entity, the respective benefits to the other parties involved and any other related matters.

Other voidable transactions which may be claimed regardless of solvency are:

- **unfair loans**: a loan agreement where the interest or charges are considered to be extortionate. Unfair loans made to the entity any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed liquidator, whether or not the entity was insolvent at the time the loan was entered into;

- **unreasonable director related transactions**: transactions with a director or a related entity of the director which a reasonable person in the place of the entity would not have entered into, taking into account the benefits and the detriment to the entity, the respective benefits to the other parties involved and any other related matters; and

- **security interests created within six months of the relation back day**: these may be unenforceable under certain circumstances.

The financial accounting records and other sources were reviewed to identify any potential voidable transactions and the Administrators’ preliminary conclusions are set out below.

### 8.9.1 Unfair preferences

RCR’s books and records disclose a substantial quantum of payments made to individual creditors of the RCR Group in the period leading up to the appointment of Administrators. Certain payments to creditors may be recoverable from these creditors if the relevant entity is placed into liquidation.

The Administrators note that their investigations to date are preliminary. If the RCR Group is placed into liquidation, further investigations and a cost benefit analysis of instigating recovery actions against individual creditors will be required to be undertaken by an appointed liquidator.

As outlined above, in order to bring an action for recovery of an unfair preference against a creditor of an entity within RCR, an appointed liquidator would be required to demonstrate that the relevant entity was insolvent at the time of the transaction, as well as a number of other elements. These include that the creditor received a preference over other creditors, and that the recipient of the preference had grounds to suspect that the relevant entity was insolvent at the time of receiving payment.

As a part of the Administrators investigations into unfair preferences, the following tasks were undertaken:

- analysis of trade creditor ledgers and movements in creditor accounts of time;
- reviewing email correspondence between RCR and creditors; and
- reviewing other RCR books and records to identify whether any creditors applied pressure on RCR to coerce payment.

Similar to insolvent trading actions, there are a range of defences available to parties that received a payment identified as a potential unfair preference. These defences would be considered prior to commencing recovery actions against individual creditors.

There are a range of matters that might impact the ultimate recovery against these potential preference claims, including:

- the possible application of the running account principle, which may reduce the face value of the claims identified;
- the availability of statutory defences and other counter arguments such as that the creditor held security; and
- the costs associated with recovery, including possibly litigating the claims, with the attendant litigation risk.

The statutory defences to an unfair preference claim include receiving payment in good faith and that the creditor had no reasonable grounds for suspecting that the company was insolvent at the time of receiving payment.

Further investigations would be required by an appointed liquidator to determine whether any unfair preference claims exist, and whether or not they would be commercial to pursue.

### 8.9.2 Uncommercial transactions

A review of RCR’s financial records did not identify any uncommercial transaction entered into by the RCR Group during the period of suspected insolvency.
8.9.3  **Unfair loans**
A review of RCR’s financial records did not identify any unfair loans made to the RCR Group by external or related parties.

8.9.4  **Unreasonable director related transactions**
A review of RCR’s financial records did not identify any unreasonable director related transactions.

8.9.5  **Circulating security interests created within six months of the relation back day**
Pursuant to section 588FJ of the Act, a circulating security interest created within six months of the relation back day is void against a company’s liquidator, except so far as it secures:

- an advance paid to the company, or at its direction, at or after that time and as consideration for the circulating security interest;
- interest on such an advance;
- the amount of a liability under a guarantee or other obligation undertaken at or after that time on behalf of, or for the benefit of, the company;
- an amount payable for property or services supplied to the company at or after that time; or
- interest on an amount so payable.

The relation back day for the RCR Group is 21 November 2018, with the relation back period extending to 21 May 2018, being six months prior to the Appointment Date.

The Administrators have undertaken a review of RCR’s records and the PPSR registrations made against RCR and identified any circulating security interests which were registered during and before the relation back period. Any security interests that would be void against a company’s liquidator will be taken into account in the event that the Group is placed into liquidation and distributions are declared.

8.10  **Funding to pursue insolvent trading, voidable transactions or company officers**
Creditors should note that insolvent trading and voidable transaction actions can only be pursued in a liquidation and would require significant further investigation prior to establishing that valid, pursuable claims exist.

Any subsequent litigation would be complex and likely to result in significant costs. Funding may be sought from creditors or litigation funders if an appointed liquidator considers commencing such action.

8.11  **Other offences**
Pursuant to section 438D of the Act, the Administrators must lodge a report with ASIC if it appears to the Administrators that:

- a past or present officer or employee or a member may have been guilty of an offence; or
- a person who has taken part in the formation, promotion, administration, management or winding up:
  - may have misapplied or retained or may have become liable or accountable for money or property; or
  - may have been guilty of negligence, default, breach of duty or breach of trust.

A summary of common potential offences which the Administrators have considered in the course of undertaking their investigations is provided in the following table.
Table 20: Summary of common director offences

<table>
<thead>
<tr>
<th>Section</th>
<th>Offence</th>
</tr>
</thead>
<tbody>
<tr>
<td>180</td>
<td>Failure to discharge duties with reasonable degree of care and diligence.</td>
</tr>
<tr>
<td>181</td>
<td>Failure to act in good faith and in best interests of the corporation and for proper purpose.</td>
</tr>
<tr>
<td>182</td>
<td>Improper use of position to gain personal advantage or cause detriment to corporation.</td>
</tr>
<tr>
<td>183</td>
<td>Improper use of information to gain advantage or cause detriment to corporation. Reckless or intentionally dishonest and failing to exercise powers and discharge duties in good faith and for a proper purpose.</td>
</tr>
<tr>
<td>184</td>
<td>Disqualified person managing corporation.</td>
</tr>
<tr>
<td>206A</td>
<td>Failure to keep financial records.</td>
</tr>
<tr>
<td>1307</td>
<td>Falsification of books.</td>
</tr>
<tr>
<td>1401H</td>
<td>Misleading or deceptive conduct</td>
</tr>
</tbody>
</table>

Source: Corporations Act 2001

Creditors should note that the list of offences in the table above is not an exhaustive list of all potential offences under the Act, but rather a summary list of offences more commonly committed.

These, and other potential offences, have been considered in the course of the Administrators’ investigations and are discussed in further detail below.

### 8.11.1 Section 180 – Care and diligence – Civil obligation

Pursuant to section 180 of the Act, a director or other officer of a corporation must exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they:

- were a director or officer of a corporation in the corporation's circumstances; and
- occupied the office held by, and had the same responsibilities within the corporation as, the director or officer.

Having undertaken a preliminary review of the operating history of RCR for the period in the three years prior to the Appointment Date, the Administrators consider that there may be potential breaches of section 180 of the Act, particularly in relation to:

- the rapid and significant investment into the renewable energy industry, with 15 solar projects contracts awarded to RCR in the space of eighteen months with a total value of approximately $1.5 billion (refer section 7.2.2), in particular:
  - a significantly different risk profile was brought into the Group, without any noticeable change in the Group’s governance or risk structures;
  - the projects appear to have been under-priced and, consequently the margins (which were already lower than traditional operating margins) were eroded; and
  - project costs were not accurately forecast and project controls were inadequate, leading to significant cost overruns being identified, sometimes at late stages of contracts;
- Management’s inability to accurately forecast project progress and completion timeframes, and therefore to accurately forecast future funding needs (refer section 8.5); and
- the 2018 Capital Raise, considering what was known (or should have been known) by the RCR Board in relation to the true cash requirements and status of the solar projects at that time (refer section 3.9.4 and 8.5).

Section 180 of the Act provides for a presumption in favour of directors or officers in exercising commercial judgment known as the ‘business judgement rule’. The business judgement rule applies where a director or officer:

- made a judgement in good faith for a proper purpose; and
- did not have a material personal interest in the subject matter of the judgement; and
informed themselves about the subject matter of the judgment to the extent they reasonably believe to be appropriate; and
rationally believed that the judgment is in the best interests of the corporation.

Further investigation would be performed by an appointed liquidator, prior to determining whether there are grounds to pursue a claim in relation to any of these matters.

8.11.2 Section 181 – Good faith – Civil obligation
Pursuant to section 181 of the Act, a director or other officer of a corporation must exercise their powers and discharge their duties:
- in good faith in the best interests of the corporation; and
- for a proper purpose.

The Administrators’ preliminary investigations have not identified any evidence of potential breaches pursuant to section 181 of the Act.

8.11.3 Section 182 – Use of position – Civil obligation
Pursuant to section 182 of the Act, a director, secretary, other officer or employee of a corporation must not improperly use their position to:
- gain an advantage for themselves or someone else; or
- cause detriment to the corporation.

The Administrators’ preliminary investigations have not identified any evidence of potential breaches pursuant to section 182 of the Act.

8.11.4 Section 183 – Use of information – Civil obligation
Pursuant to section 183 of the Act, a person who obtains information because they are, or have been, a director or other officer or employee of a corporation must not improperly use the information to:
- gain an advantage for themselves or someone else; or
- cause detriment to the corporation.

The Administrators’ preliminary investigations have not identified any evidence of potential breaches pursuant to section 182 of the Act.

8.11.5 Section 184 – Good faith, use of position and use of information – Criminal offences
Pursuant to section 184 of the Act, a director or other officer of a corporation commits an offence if they:
- are reckless; or
- are intentionally dishonest;

and fail to exercise their powers and discharge their duties:
- in good faith in the best interests of the corporation; or
- for a proper purpose,

or, if they are an employee, use their position dishonestly:
- with the intention of directly or indirectly gaining an advantage for themselves, or someone else, or causing detriment to the corporation; or
- recklessly as to whether the use may result in themselves or someone else directly or indirectly gaining an advantage, or in causing detriment to the corporation,

or a person who obtains information because they are, or have been, a director or other officer or employee of a corporation commits an offence if they use the information dishonestly:
- with the intention of directly or indirectly gaining an advantage for themselves or someone else, or causing detriment to the corporation; or
recklessly as to whether the use may result in themselves or someone else directly or indirectly gaining an advantage, or in causing detriment to the corporation.

The Administrators’ preliminary investigations have not identified any evidence of potential breaches pursuant to section 184 of the Act.

8.11.6 Section 206A – Disqualified person not to manage corporations

Pursuant to section 206A of the Act, a person who is disqualified from managing corporations commits an offence if they continue to have an active role in the management of a corporation.

The Administrators have not identified any disqualified person acting in a management capacity of RCR.

8.11.7 Section 286 – Obligation to keep financial records

Pursuant to section 286 of the Act, a company, registered scheme or disclosing entity must keep written financial records that:

- correctly record and explain its transactions and financial position and performance; and
- would enable true and fair financial statements to be prepared and audited.

As discussed at section 8.3.3 above, the Administrators have undertaken a preliminary review of RCR’s accounting systems and records and believe that sufficient systems were in place to enable RCR to record its financial transactions accurately and enable financial statements to be prepared and audited as and when required.

However, as noted at section 8.3.3, the Administrators consider that from June 2018, the books and records may not have accurately reflected RCR’s true financial position.

8.11.8 Section 1307 – Falsification of books

Pursuant to section 1307 of the Act, an officer, employee, former employee, member or former member of a company who engages in conduct that results in the concealment, destruction, mutilation or falsification of any securities of or belonging to the company or any books affecting or relating to affairs of the company is guilty of an offence.

In the course of undertaking their preliminary investigations, the Administrators have not had reason to suspect any potential breach under section 1307 of the Act.

8.11.9 Section 1041H – Misleading or deceptive conduct (Civil liability only)

Pursuant to section 1041H of the Act, a person must not engage in conduct, in relation to a financial product or a financial service, that is misleading or deceptive or is likely to mislead or deceive.

In the course of undertaking their preliminary investigations, the Administrators have not had reason to suspect any potential breach under section 1041H of the Act.
9 Anticipated return to creditors

This section of the Report outlines the estimated outcome for creditors of each of the RCR Group entities from liquidation.

9.1 Background

Three classes of creditor are entitled to rank for dividend purposes against net asset recoveries from a liquidation of the RCR Group, being:

- priority creditors (i.e. employees);
- Secured Creditors (i.e. those creditors who have security over RCR’s assets); and
- unsecured creditors.

As explained at section 9.3, the Act prescribes a strict order of distribution of funds realised through a liquidation process. Priority creditors have first-ranking priority from net circulating asset realisations, such as recoveries from stock, work in progress and debtors in the entity they are employed by.

Secured creditors rank ahead of other creditors against net non-circulating asset realisations, such as recoveries from plant and equipment and goodwill. Secured Creditors rank behind priority creditors, (but ahead of other unsecured creditors) from any surplus circulating asset recoveries.

The characterisation of assets and the associated costs of realising these assets as circulating and non-circulating is complex. The Administrators are continuing to take advice on this and may require court directions to make a final determination.

The priority extended to priority creditors under the Act only applies to recoveries from circulating assets arising from the specific entity within the RCR Group that the priority creditor is a creditor of directly (i.e. the employing entity for employee priority creditors). This means all distributions must be calculated on an entity-by-entity basis, based on the pre-administration assets and creditors of each entity rather than as a single “pooled” group.

Due to the existence of the Deed of Cross Guarantee (explained at section 3.2.1), all creditors (including employee creditors) are entitled to rank for dividend purposes against all entities subject to the Deed of Cross Guarantee, however employee creditors are only afforded a priority against net circulating asset recoveries from their employing entity. Employees are therefore entitled to two different claims:

- a priority claim from net recoveries from net circulating asset realisations from their employing entity; and
- a Deed of Cross Guarantee claim, if their employing entity is subject to the Deed of Cross Guarantee, which will rank alongside unsecured creditors in the entities subject to the Deed of Cross Guarantee.

The estimated outcome statement provided at section 9.1 below estimates distributions to priority creditors from circulating assets at between $7.4 million and $11.6 million. Total priority claims are presently estimated to be between $27.5 million and $33.3 million, therefore there is anticipated to be a shortfall to priority creditors of between $15.9 million and $25.9 million.

The amounts available to employees by way of a priority distribution will vary between each employing entity, depending on the extent of net circulating asset recoveries available in each entity. As such, employees across the Group will not receive an equal priority distribution, with some groups of employees expected to be paid in full, other groups expected to receive a partial distribution and other groups, where no recoveries from circulating assets are expected, will not receive a priority distribution. The Administrators note that on the liquidation of the entities, eligible employees will have recourse to the government’s Fair Entitlement Guarantee Scheme, known as FEG and further information will be provided to eligible employees at that time.

The net amount available to the Secured Creditors from a liquidation is estimated to be between $80.9 million and $156.7 million (subject to the determination of certain factors such as the classification of assets as circulating or non-circulating and the payment of Administration costs and expenses from circulating or non-circulating assets). Total secured claims are estimated to be between $226.2 million and $231.9 million, resulting in a deficiency to the Secured Creditors of between $69.5 million and $151.0 million.
With an anticipated deficiency to the Secured Creditors, there is unlikely to be funds available to unsecured creditors from the liquidation of the RCR Group.

### 9.2 Estimated outcome of the Administration

The following table sets out the Administrators’ estimate as to the outcome to creditors from a liquidation of the RCR group entities on an aggregated basis.

**Table 21: Estimated outcome statement from liquidation**

<table>
<thead>
<tr>
<th>Estimated outcome statement from liquidation</th>
<th>Notes</th>
<th>Low case scenario</th>
<th>High case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated gross non-circulating asset realisations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts and goodwill</td>
<td>1</td>
<td>53.7</td>
<td>59.4</td>
</tr>
<tr>
<td>Contractual claims subject to non-circulating security interests</td>
<td>2</td>
<td>5.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>3</td>
<td>2.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total estimated gross non-circulating asset realisations</td>
<td></td>
<td>60.7</td>
<td>104.4</td>
</tr>
<tr>
<td><strong>Estimated costs and expenses of realisation (non-circulating)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading profit/(loss)</td>
<td>4</td>
<td>(11.3)</td>
<td>(11.3)</td>
</tr>
<tr>
<td>Administrators’ and liquidators’ fees, disbursements and legal costs</td>
<td>5</td>
<td>(7.6)</td>
<td>(8.4)</td>
</tr>
<tr>
<td>Other costs and expenses of realisation</td>
<td>6</td>
<td>(0.8)</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Net amount available to secured creditors (non-circulating)</td>
<td></td>
<td>40.9</td>
<td>83.8</td>
</tr>
<tr>
<td><strong>Estimated gross circulating asset realisations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>7</td>
<td>74.4</td>
<td>111.2</td>
</tr>
<tr>
<td>Stock</td>
<td>8</td>
<td>7.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Total estimated gross circulating asset realisations</td>
<td></td>
<td>82.0</td>
<td>119.8</td>
</tr>
<tr>
<td><strong>Estimated costs and expenses of realisation (circulating)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading profit/(loss)</td>
<td>4</td>
<td>(16.1)</td>
<td>(16.1)</td>
</tr>
<tr>
<td>Administrators’ and liquidators’ fees, disbursements and legal costs (i)</td>
<td>5</td>
<td>(18.4)</td>
<td>(19.2)</td>
</tr>
<tr>
<td>Net amount available to priority creditors</td>
<td></td>
<td>47.5</td>
<td>84.5</td>
</tr>
<tr>
<td>Priority creditors entitled to participate in distribution</td>
<td>9</td>
<td>(7.4)</td>
<td>(11.6)</td>
</tr>
<tr>
<td>Net circulating assets available to Secured Creditors</td>
<td></td>
<td>40.0</td>
<td>73.0</td>
</tr>
<tr>
<td>Net non-circulating assets available to Secured Creditors (from above)</td>
<td></td>
<td>40.9</td>
<td>83.8</td>
</tr>
<tr>
<td>Net amounts available to Secured Creditors</td>
<td></td>
<td>80.9</td>
<td>156.7</td>
</tr>
<tr>
<td>Estimated Secured Creditor claims</td>
<td>10</td>
<td>(231.9)</td>
<td>(226.2)</td>
</tr>
<tr>
<td><strong>Estimated deficiency to secured creditors</strong></td>
<td></td>
<td>(151.0)</td>
<td>(69.5)</td>
</tr>
</tbody>
</table>

**Estimated unsecured claims**

<table>
<thead>
<tr>
<th></th>
<th>Low case scenario</th>
<th>High case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(170.6)</td>
<td>(170.6)</td>
</tr>
</tbody>
</table>

*Note: all amounts in the above table are presented exclusive of GST.*

*Note: (i) the allocation of the Administration costs includes fees funded through the Funding Facility and not directly from circulating assets.*

Set out at Appendix F are estimated outcome statements for each entity on a stand-alone company basis.

#### 9.2.1 Summary estimated outcome of the Administration

As outlined in the table above, the Administrators estimate that:

- priority creditors (i.e. employees) that are entitled to participate in a priority distribution will be paid between $7.4 million and $11.6 million from asset realisations (refer note 9 below);
- funds of between $80.9 million (low case scenario) and $156.7 million (high case scenario) are estimated to be available for distribution to the Secured Creditors;
the ultimate deficiency to the Secured Creditors, which have an exposure of approximately $230.0 million, is estimated to be between $69.5 million and $151.0 million; and

the Companies’ books and records reflected unsecured claims of approximately $170.6 million at the Appointment Date (excluding contingent claims and proof of debt forms that have not yet been admitted).

Due to the anticipated deficiency to the Secured Creditors, it is probable that there will be insufficient funds available to enable a distribution to be made to unsecured creditors.

9.2.2 Notes on the estimated outcome of the Administration

Note 1: Contracts and goodwill

- Proceeds from the realisation of contracts and goodwill of between $53.7 million and $59.4 million are estimated to be achieved through the Administrators’ sale of business and asset process.

Note 2: Contractual claims subject to non-circulating security interests

- Comprises estimated amounts recoverable from contractual claims, subject to non-circulating security interests.

Note 3: Plant and equipment

- Gross realisations from plant and equipment (not included in the going concern sale process) across the group is estimated to be between $2.0 million and $5.0 million.

Note 4: Trading profit/(loss)

- The estimated trading loss incurred while preserving the businesses as a going concern while the sale process was undertaken, is approximately $27.4 million.

- As outlined above, the Court ordered that (inter alia), where realisations from assets in any of the entities subject to the Appointment are insufficient to pay the liabilities of that entity that were incurred during the period of administration, the Administrators may make intercompany loans to the relevant entity to cover the shortfall. Therefore, available funds were applied to fund trading losses.

- The trading loss, together with all other costs and expenses of realisation, have been preliminarily allocated between the circulating and non-circulating estates, based on realisations achieved, however, as noted above, the final allocation of costs and expenses remains subject to ongoing review.

Note 5: Administrators’ and liquidators’ fees, disbursements and legal costs

- Comprises an estimate of the Administrators’ remuneration, disbursements and legal costs for the administration period, together with a contingency for remuneration, disbursements and legal fees of a liquidator (if one is appointed).

Note 6: Other costs and expenses of realisation

- Comprises agents fees associated with the Administrators’ sale of business and assets process.

Note 7: Debtors

- The Administrators anticipate recoveries from pre-administration debtors of between $74.4 million (low case scenario) and $111.2 million (high case scenario).

- The difference between the low and high case scenarios for recoveries from debtors largely arises from potential future recoveries from solar projects.

- The Administrators, together with Management, have reviewed the debtor position in relation to each solar contract and continue to put each principal on notice of RCR’s claims against each project.

- With alternative contractors having been appointed by the principals to complete certain projects, RCR’s claim in relation to each project will be impacted by counter claims against it arising from costs incurred in this regard. The Administrators have put all solar farm principals on notice regarding their duty to mitigate costs and account for costs incurred.

- The Administrators presently estimate that it may take a period of up to two years after practical completion for each of the claims to be resolved (as a result of time periods included in certain contracts).
Note 8: Stock

- Gross proceeds of realisation from stock are estimated to be between $7.6 million (low case scenario) and $8.6 million (high case scenario).

Note 9: Priority creditors entitled to participate in distribution

- Priority creditors (i.e. employees) rank ahead of secured and unsecured creditors for dividend purposes against the net proceeds of realisation from circulating assets within the entity which they are priority creditors directly.
- In other words, in entities where sufficient circulating assets have been realised to enable a distribution to be made to priority creditors, the employees employed by that entity are entitled to a priority dividend distribution from that entity.
- As the availability of circulating assets varies between each of the employing entities, details of circulating assets on an entity by entity basis are provided in Appendix F, which as noted above are subject to ongoing review.

Note 10: Estimated secured creditor claims

- The total amount outstanding to the Secured Creditors is estimated to be between $226.2 million and $231.9 million, and is subject to further interest and charges.
- It is anticipated that there will be a deficiency to the Secured Creditors of between $69.5 million (high case scenario) and $151.0 million (low case scenario), which depends among other things on the classification of assets as circulating or non-circulating, which is subject to ongoing review.

9.3 Potential further recoveries in liquidation

The avenues for further recoveries in liquidation include:

- wind down of the solar business unit and settlement of outstanding claims, noting the Administrators understand eight of the solar farms are presently generating at full capacity, two at partial generation, while three solar farms are still awaiting registration (a requirement of the head contractor/principal);
- the sale of the remaining business units (including Haden Property Services Mount Gambier operations, ODG Services and FM Resolve);
- finalisation of legal claims commenced prior to Appointment; and
- potential recoveries from claims in relation to insolvent trading, breach of duties and antecedent transactions (as discussed in section 8), pending further investigation to determine whether potential claims are commercially viable to pursue on an entity by entity basis.

The quantum of any recoveries in liquidation is uncertain and further work will be performed in the event that a liquidator is appointed.

9.4 Order of priority of distribution

The Act prescribes a strict order of priority for the distribution of funds realised through the administration, and subsequent liquidation, process. In summary, proceeds received from asset realisations are utilised as follows:

- firstly, to fund the costs and expenses of the administration and liquidation process, including the Administrators', and an appointed liquidator's, fees and expenses. Creditors should however note, that as outlined in the Administrators' initial correspondence to creditors dated 26 November 2018, the Administrators' (and an appointed liquidator's) fees are subject to approval by creditors, a COI or the Court and cannot be drawn without such approval;
- then, priority creditors (i.e. employees) who are entitled to rank for a priority distribution against net realisations from circulating assets within their employing entity;
- then, the Secured Creditors who rank ahead of unsecured creditors against surplus circulating assets and non-circulating assets; and
- unsecured creditors (and lastly shareholders) who rank behind priority creditors and the Secured Creditors. As outlined above, the availability of a distribution to unsecured Creditors is wholly dependent on recoveries from antecedent transactions or other claims in liquidation.
Options available to creditors

This section of the Report provides creditors with a statement of the Administrators’ opinion about each of the courses of action in respect of which creditors are entitled to vote at the Second Meetings of Creditors.

The Administrators are required to provide creditors with a statement of their opinion about each of the courses of action in respect of which creditors are entitled to vote at the Second Meetings of Creditors on 26 March 2019.

The Administrators are required to opine on whether it would be in the creditors’ interests, in relation to any entity within the RCR Group:

- for the administration to end with control of the entity reverting to the Board;
- for the entity to execute a DOCA; or
- for the entity to be wound up.

Creditors are also entitled to adjourn the Second Meetings of Creditors for up to 45 business days.

10.1 Administrations to end

Creditors may consider ending the administration of any entity, and returning the control of the entity to the Board.

The Administrators do not believe this to be a viable option, noting that the RCR Group is insolvent and the majority of the RCR Group’s business has either been sold, or ceased to trade. In the Administrators’ opinion, it is not in the best interests of creditors of any of the RCR Group entities for control to revert to its Board.

10.2 DOCA

The Administrators note that, at the date of this Report, no DOCA has been proposed for any entity within the RCR Group, nor is it considered likely that a DOCA will be proposed before the Second Meetings of Creditors. Accordingly, the option for creditors to resolve that any of the entities should enter into a DOCA is not expected to be available.

10.3 The Companies be wound up

Absent a proposal for a DOCA, and because the Administrators cannot recommend returning control of the entities to the Board in their insolvent state (as explained above), the only option for the Administrators to recommend (at the time of writing this Report) is that the Companies be wound up by placing them into liquidation and that the Administrators act as joint and several liquidators of the RCR Group.

The liquidation of the Companies would provide for:

- the facilitation of a more detailed investigation into the affairs of the Companies, the conduct of the Board and the potential to pursue claims against directors;
- further enquiries with regard to recovering potential insolvent trading and voidable transaction claims;
- reporting to ASIC in relation to offences (if any) committed by the Directors of the Companies; and
- adjudication of creditor claims and payment of dividends, if sufficient funds become available to enable a distribution to be made.

The costs of administering the liquidation would depend to a large degree on the extent of further investigations that may be undertaken by an appointed liquidator.

In the absence of a DOCA proposal, the Administrators recommend that creditors vote for the RCR Group to be placed into liquidation.

However, as noted above, creditors also have the option of voting to adjourn the Second Meetings of Creditors for up to 45 business days. As no DOCA is presently expected to be received, the Administrators do not recommend the meetings be adjourned.

10.4 Administrators’ recommendation

For the reasons set out above, the Administrators recommend that creditors resolve that each entity within the RCR Group be placed into creditors’ voluntary liquidation.
Receipts and payments

Details of the Administrators’ receipts and payments during the period 21 November 2019 to 1 March 2019 by entity are included at Appendix E. A summary of the consolidated position is set out in the table below.

Table 22: Summary of receipts and payments

| Summary receipts and payments for the period 21 November 2018 to 1 March 2019 |
|---------------------------------|-----------------|
|                                  | A$’000          |
| **Receipts**                    |                 |
| Post-appointment debtor receipts| 63,525          |
| Pre-appointment debtor receipts | 60,831          |
| Proceeds from sale of business  | 42,840          |
| Drawdown on Administrators loan | 5,000           |
| Other income                    | 1,814           |
| **Total receipts**              | 174,010         |
| **Payments**                    |                 |
| Payroll                         | (36,854)        |
| Materials                       | (6,774)         |
| Appointee fees                  | (6,268)         |
| Repayment of Administrators’ loan| (5,154)        |
| Insurance                       | (4,609)         |
| Subcontractors                  | (3,744)         |
| Legal fees                      | (3,515)         |
| Superannuation                  | (3,353)         |
| Rent & Rates                    | (2,765)         |
| Funds held in Escrow - Rail     | (2,200)         |
| Hire & Leasing                  | (2,032)         |
| IT expenses                     | (614)           |
| Travel expenses                 | (549)           |
| Employee expenses               | (488)           |
| Sundry expenses                 | (387)           |
| Consumables                     | (373)           |
| Other professional fees         | (351)           |
| Telephone & fax                 | (333)           |
| Rent                            | (350)           |
| Freight & couriers              | (547)           |
| Motor vehicle expenses          | (262)           |
| Repairs & maintenance           | (204)           |
| Other payments                  | (1,942)         |
| **Total payments**              | (83,668)        |
| **Net cash flow**               | 90,342          |
| Cash at bank as at 1 March 2019 | 90,342          |

Please note that analysis regarding the allocation between circulating assets and trading receipts remains ongoing and the post appointment debtor receipts presented above may include elements of WIP and accrued revenue held at the date of appointment.
Creditor information on remuneration

An administrator’s remuneration can only be fixed by resolution of a committee of inspection, a company’s creditors or by application to the court.

In accordance with section 449E of the Act and the ARITA Code of Professional Practice, a Schedule of Remuneration Methods and Hourly Rates was provided to creditors with the Administrators’ initial circular letter to creditors dated 26 November 2018 and tabled at the First Meetings of Creditors held on 3 December 2018. A copy of this schedule is included at Appendix G to this Report.

The Administrators’ remuneration has been calculated based on time spent (or estimated to be spent) by the Administrators and their staff for the periods:

- 21 November 2018 to 1 March 2019 (based on actual time spent); and
- 2 March 2019 to 26 March 2019 (based on estimated time to be spent at the time of writing this Report).

At the first and second COI meetings, the COI approved the Administrators’ remuneration for each of these periods for the entities subject to the Deed of Cross Guarantee. A summary of the remuneration that has already been approved is provided in the table below.

**Table 23: Remuneration already approved**

<table>
<thead>
<tr>
<th>Period</th>
<th>Companies</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 November 2018 to 4 January 2019</td>
<td>DXG Companies - actual incurred</td>
<td>5,698</td>
</tr>
<tr>
<td>5 January 2019 to 1 March 2019</td>
<td>DXG Companies - actual incurred</td>
<td>7,274</td>
</tr>
<tr>
<td>2 March 2019 to 26 March 2019</td>
<td>DXG Companies - forecast</td>
<td>1,940</td>
</tr>
<tr>
<td><strong>Total fees approved by COI</strong></td>
<td></td>
<td><strong>14,912</strong></td>
</tr>
</tbody>
</table>

At the forthcoming Perth meetings, the Administrators will ask creditors to consider, and if thought fit, approve their remuneration in relation to RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd).

A combined Remuneration Report for RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) is available on the McGrathNicol website (refer section 16). This Remuneration Report contains details of the fee resolutions to be sought at the Perth meetings, summarised in the table below.

**Table 24: Remuneration resolutions being sought**

<table>
<thead>
<tr>
<th>Period</th>
<th>Companies</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 November 2018 to 1 March 2019</td>
<td>RCR Asset Maintenance Pty Ltd - actual incurred</td>
<td>192</td>
</tr>
<tr>
<td>21 November 2018 to 1 March 2019</td>
<td>ACN 060 002 968 Pty Ltd - actual incurred</td>
<td>295</td>
</tr>
<tr>
<td>2 March 2019 to 26 March 2019</td>
<td>RCR Asset Maintenance Pty Ltd - forecast</td>
<td>20</td>
</tr>
<tr>
<td>2 March 2019 to 26 March 2019</td>
<td>ACN 060 002 968 Pty Ltd - forecast</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total fee resolutions being sought</strong></td>
<td></td>
<td><strong>547</strong></td>
</tr>
</tbody>
</table>

In the event that the Administrators’ future remuneration is below the estimated forecast amount approved, the Administrators will only draw the amount incurred. If actual remuneration exceeds the amount approved, the Administrators may seek further approval.

The remaining 13 entities sit outside of the Deed of Cross Guarantee and are dormant. Consequently, the Administrators will not be seeking fee resolutions in relation to these entities.
13 Legal fees

Legal fees incurred during the Administration total $4.5 million, relating to the sale process, investigations and other commercial advice in relation to contracts and disputes.

14 Committee of inspection

In the event that creditors resolve that the Companies be wound up, the Act provides that a Committee of Inspection (COI) may be formed.

In these circumstances, a COI would provide the liquidators with a sounding board in relation to creditors’ views on any contentious issues, and may approve certain matters (for example compromises of claims and the liquidator’s remuneration).

At the Second Meetings of Creditors, for those entities being placed in liquidation, creditors will be invited to consider whether a COI should be formed, and if so, which creditors should be on the committee.

15 Second Meetings of Creditors

The Second Meetings of Creditors for each company have been convened to be held on 26 March 2019. The meetings will be held at two locations, as follows:

- Duxton Hotel, 1 St Georges Terrace, Perth WA 6000 at 1.00pm AWST (the Perth meetings), for creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd); and
- Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000 at 1.00pm AEDT (the Sydney meetings), for creditors of all other entities within the Group.

For the avoidance of doubt, the Perth meetings are being convened for the creditors of RCR Asset Maintenance Pty Ltd and A.C.N. 060 002 968 Pty Ltd (formerly known as RCR Resources (Heat Treatment) Pty Ltd) only. If you are a creditor of any other entity listed at Appendix A (which will be the large majority of creditors), the relevant meeting for you to attend is the Sydney meeting.

Observers are able to attend either meeting, however will not be entitled to participate, either by voting or by asking questions.

Creditors of the entities that are included in the Sydney meetings may view the Sydney meetings via a webcast subject to providing relevant documents in advance. Creditors will be able to ask questions over the webcast, however will be unable to vote on the day (refer below for details of how to lodge a proxy for the meetings in advance). Please contact Link Market Services on or before Monday, 25 March 2019 if you wish to view the meetings via a webcast.

Creditors who intend to vote at the meetings are required to lodge a formal proof of debt. Creditors who have already lodged a proof of debt for the First Meetings of Creditors (or subsequent to the First Meetings of Creditors) do not need to complete a new form. A blank proof of debt form is included at Appendix J.

Creditors may exercise their right to vote by voting at the meetings in person, by appointing a proxy or by postal vote.

Pursuant to the Act, the proxy forms lodged by creditors for the First Meetings of Creditors cannot be used for the Second Meetings of Creditors. Accordingly, creditors who wish to vote by proxy should ensure that a proxy form for the Second Meetings of Creditors, power of attorney or evidence of appointment of a company representative is completed and lodged. A proxy form is provided at Appendix K.

Provided at Appendix H is an information sheet “General information for Attending and Voting at Meetings of Creditors”.

Documents must be lodged with the Administrators’ office by 10.00am AEDT on Sunday, 24 March 2019. Registration for the meetings will commence on the day at 12.00pm AWST for the Perth meetings and 12.00pm AEDT for the Sydney meetings.

A copy of the minutes of the Second Meetings of Creditors will be made available on the McGrathNicol website (www.mcgrathnicol.com/creditors/rcr-group) within ten business days of the meetings (i.e. on or before 9 April 2019).
Provided at Appendix I are information sheets issued by ASIC and ARITA for the information of creditors.

Please refer to the McGrathNicol website at www.mcgrathnicol.com/creditors/rcr-group for further information regarding this engagement. Creditors may also email rcrtomgeneral@mcgrathnicol.com if they have any queries.

Dated 19 March 2019

Jason Preston
Joint and Several Administrator

Jamie Harris
Joint and Several Administrator

Matthew Caddy
Joint and Several Administrator

Rob Brauer
Joint and Several Administrator
Appendices
Appendix A: Schedule of entities subject to appointment and subject to the Deed of Cross Guarantee
Appendix B: Notices of Meetings
Appendix C: Declaration of Independence, Relevant Relationships and Indemnities
Appendix D: Corporate structure of entities subject to appointment
Appendix E: Statutory and other information by entity
Appendix F: Anticipated outcome to creditors by entity
Appendix G: Schedule of Remuneration and Rates
Appendix H: General information for Attending and Voting at Meetings of Creditors
Appendix I: ASIC and ARITA information sheets
Appendix J: Proof of Debt form
Appendix K: Proxy form