REPORT BY ADMINISTRATORS

11 APRIL 2016

Queensland Nickel Pty Ltd (Administrators Appointed) ACN 009 842 068

Pursuant to Section 439A of the Corporations Act

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1. Introduction

We, John Park, Kelly-Anne Trenfield, Stefan Dopking and Quentin Olde (the Administrators), were appointed as Administrators of Queensland Nickel Pty Ltd (the Company or QN) on 18 January 2016 pursuant to Section 436A of the *Corporations Act 2001 (Cth)* (the Act).

On 18 January 2016, John Park and Quentin Olde were also appointed as Administrators of Palmer Aviation Pty Ltd (ACN 158 870 789), a related entity to QN. At the Second Meeting of Creditors for Palmer Aviation Pty Ltd, held on 23 February 2016, it was resolved pursuant to Section 439C(C) of the Act that Palmer Aviation Pty Ltd be wound up and that John Park and Quentin Olde would be the duly appointed Liquidators.

The purpose of this Report is to provide the Creditors of QN with sufficient information to allow Creditors to make an informed decision when voting on resolutions that will determine the future of the Company at the Second Meeting of Creditors.

The Second Meeting of Creditors has been convened for **Friday 22 April 2016 at The Grand Ballroom, The Ville Resort-Casino, Sir Leslie Thiess Drive, Townsville QLD 4810 at 11:00AM.** Please refer to the Section 3.4 of this report for further details regarding the Second Meeting of Creditors.

2. Executive Summary

An Executive Summary of the key points, findings and recommendations of this Report are detailed below. The Executive Summary must be read in conjunction with the entire Report and must not be relied on without first reading the entire Report including all qualifications, limitations and comments.

Table 1: Executive Summary

Subject Matter	Preliminary Findings & Recommendations	Report Reference
Future of the Company	As Administrators, we recommend that Creditors resolve at the Second Meeting of Creditors that the <u>Company be wound up</u>.	Section 7.2
Second Meeting of Creditors	The Second Meeting of Creditors is being held on Friday 22 April 2016 at The Grand Ballroom, The Ville Resort-Casino, Sir Leslie Thiess Drive, Townsville QLD 4810 at 11:00AM. Registration will open at 9:30AM.	Section 3.4
Return to Priority Creditors	The estimated return to Priority Creditors of the Company is likely to be between 100 and Nil cents in the dollar. Any return to priority creditors is dependent on the level of recoveries made by a Liquidator.	Section 9
Return to Unsecured Creditors	The estimated return to Unsecured Creditors of the Company is likely to be between 52.31 and Nil cents in the dollar. Any return to unsecured creditors is dependent on the level of recoveries made by a Liquidator.	Section 9
Investigations	We have conducted investigations into the affairs of QN over an extensive period of six (6) financial years preceding our appointment (i.e. 1 July 2010 to 18 January 2016).	Section 6
Contravention of the Act	Our investigations indicate certain persons appointed as a Director, or whom may have acted in the capacity	Section 6.4

Table 1: Executive Summary		
Subject Matter	**Preliminary Findings & Recommendations**	**Report Reference**
	of a director, may have contravened Sections 180, 181, 182, 183 and/ or 184 of the Act, as well as their fiduciary and common law duties.	
Unfair Preferences	We have identified transactions which may give rise to successful Unfair Preference recovery actions.	Section 6.6.1
Uncommercial and Director Related Transactions	We have identified significant transactions in value and in quantum entered into by QN that appear to be both uncommercial and director related transactions. These transactions could be recovered in a Liquidation scenario.	Section 6.6.2
Date of Insolvency	Our investigations have determined that QN became insolvent no later than 27 November 2015 and remained insolvent up to the Appointment Date. A critical factual matter for resolution with respect to the timing of this is the status of QN's liability to a major trade creditor.	Section 6.6.19
Insolvent Trading Claim	There is a prospect of a net recovery (after payment of legal fees and Liquidator's costs) from an Insolvent Trading claim against the Directors if funding was available to pursue the claims.	Section 6.6.18
Indemnities and Securities	The Administrators' appointment is covered by indemnities and securities provided by and over the Joint Venture Companies, being QNI Resources Pty Ltd (QNI Resources) and QNI Metals Pty Ltd (QNI Metals).	Section 4.2
Joint Venture Call Notices	The Administrators' have issued two (2) Call Notices on the Joint Venture Companies for contributions for costs incurred under the Queensland Nickel Joint Venture Agreement (QNJVA). The Call Notices issued total $190M and relate to Employee Entitlements (owing as at 18 January 2016) and unsecured creditor claims (as at 6 April 2016)	Section 4.11

2.1 Glossary

A glossary of the defined terms used in this Report appears as Annexure 1.

2.2 Disclaimer

This Report is based on information sourced from the Company's books and records, and also information provided by the Director, Senior Management and key employees of the Company. The Administrators have reviewed the books, documents and information and whilst limited independent verification of the information has been conducted, no audit has been undertaken.

The Administrators have no reason to doubt the information contained in this Report. The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. The Administrators reserve their right to alter any conclusions reached on the basis of any changed or additional information which may become available before the Second Meeting of Creditors.

Neither the Administrators, FTI Consulting nor any employee thereof undertakes any responsibility in any way whatsoever to any person in respect of any errors in this Report arising from incorrect information provided to the Administrators.

This Report is not for general circulation, publication, reproduction or any other use other than to assist Creditors in evaluating their position as Creditors of the Company and must not be disclosed without the written approval of the Administrators.

All amounts detailed in this report are in Australian Dollars (AUD$) unless otherwise stated.

The Administrators do not assume or accept any responsibility for any liability or loss sustained by any Creditor or any other party as a result of the circulation, publication, reproduction or any other use of the Report.

Creditors must seek their own independent legal advice as to their rights and the options available to them at the Second Meeting of Creditors.

3. Appointment of Administrators

3.1 Object of the Administration

Section 435A of the Act states that the objects of the Administration provisions of the Act are to provide for the business, property and affairs of an insolvent company to be administered in a way that:

1. maximises the chance of the company, or as much as possible of its business, continuing in existence, or
2. if it is not possible for the company or its business to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

This report has been prepared in accordance with Section 439A(4) of the Act.

3.2 Prior Involvement with the Company

We advise creditors that we have had no prior involvement with the Company, its Director or any related party which would preclude us from accepting the appointment. Our Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) was provided to all creditors in our Circular to Creditors dated 20 January 2016.

Upon review of our original DIRRI, the Australian Securities and Investment Commission (ASIC) requested that our DIRRI be updated to include additional disclosures. As detailed at the First Meeting of Creditors, the additional disclosures related to:

- Defining the term "Queensland Nickel Group of Companies" to explain that this term was referencing QNI Resources, QNI Metals and QN.
- Providing confirmation that the Administrators and FTI Consulting had no prior relationships with either Waratah Coal or China First, who are two (2) secured creditors of QN.
- The former directors and current shareholders who held positions in the following entities at the date of our appointment :

Table 2: Additional DIRRI Disclosures

Company Name	Director	Former Directors	Shareholder
Coolum Resort Pty Ltd	William Schoch	Clive Palmer, Geoffrey Smith and Basil Ahyick	QNI Resources
Couer de Lion Investments Pty Ltd	William Schoch	Clive Palmer, Geoffrey Smith and Basil Ahyick	QNI Resources

Table 2: Additional DIRRI Disclosures			
Company Name	**Director**	**Former Directors**	**Shareholder**
A.C.N. 058 342 019 Pty Ltd (Formerly known as Gold Coast United F.C. Pty Ltd)	Clive Mensink	Clive Palmer and Geoffrey Smith	Minerology Pty Ltd.

This revised DIRRI was made available for inspection at the First Meeting of Creditors and was uploaded to the FTI Consulting Creditor Portal website.

Should any creditor wish to inspect the revised DIRRI, please either contact this office or visit the FTI Consulting Creditor Portal website, being: http://www.fticonsulting-asia.com/cip.

3.3 First Meeting of Creditors

Section 436E of the Act requires us to conduct a meeting of the creditors of the Company in administration within eight business days of being appointed (the First Meeting of Creditors).

The First Meeting of Creditors for the Company was held on 29 January 2016.

At the First Meeting of Creditors, it was resolved that a Committee of Creditors be formed and eleven (11) creditors were elected to the Committee.

3.4 Second Meeting of Creditors

We are required to convene a Second Meeting of Creditors of the Company in Administration pursuant to Section 439A of the Act (the Second Meeting of Creditors) to consider the future of the Company.

Before the Second Meeting of Creditors, we must prepare a report on the relevant Company's business, property, affairs and financial circumstances and provide opinions on certain matters, which is the purpose of this report. This allows creditors to be in a position to vote at the Second Meeting of Creditors on the options available to them, as to whether it would be in the creditors' interests for:

- the Company to execute a Deed of Company Arrangement (DOCA);
- the Administration to end; or
- the Company to be wound up.

A DOCA has not been proposed, so this option is not available to be considered.

On 11 February 2016, the Administrators filed an application in the Supreme Court of Queensland (the Court) seeking an extension to the period within which the Administrators must convene the Second Meeting of Creditors. The application was heard on 12 February 2016, and the Court handed down the following Orders:

1. The convening period for which the Second Meeting of Creditors must be convened, has been extended to 15 April 2016.
2. The Second Meeting of Creditors is to be held at any time during, or within five (5) business days after the end of the convening period.
3. Any creditor of the Company, who can demonstrate sufficient interest to make an application, has liberty to apply to vary or vacate these Orders and must provide three (3) business days' notice to the Administrators.
4. The Administrators must inform the creditors of the Company of the Orders handed down with seven (7) business days.
5. The costs of and incidental to this application be costs in the administration of the Company.

On 15 February 2016, The Administrators issued a Report to all creditors advising of this extension.Summarised below is the critical information regarding the Second Meeting of Creditors:

Table 3: Second Meeting of Creditors

Description	
Location of Meeting:	The Grand Ballroom, The Ville Resort-Casino, Sir Leslie Thiess Drive, Townsville Qld 4810
Date of Meeting:	Friday 22 April 2016
Time of Meeting:	11:00AM
Registration Opens at:	9:30AM
Return Proxy Forms by:	9:30AM on Wednesday, 20 April 2016
Return Proof of Debt Forms by:	9:30AM on Wednesday, 20 April 2016
Proof of Debt and Proxy Forms Returned to:	Link Insolvency Solutions Post: Locked Bag A14, Sydney South, NSW, 1235 Fax: (02) 9287 0309 Email: queenslandnickel@linkmarketservices.com.au

We request that you arrive at least one (1) hour prior to the commencement of the meeting.

Also *enclosed is a Form 532, Appointment of Proxy. If you intend to appoint another person to act on your behalf at the meeting, or you are a corporate creditor, you are required to complete and return the enclosed proxy form appointing your representative to Link Insolvency Solutions at Locked Bag A14, Sydney South, NSW, 1235, by fax to (02) 9287 0309 or by emailing queenslandnickel@linkmarketservices.com.au no later than 9:30am on Wednesday, 20 April 2016.

If you are representing a company, please ensure that your proxy is executed pursuant to Section 127 of the Act or your representative is appointed pursuant to Section 250A of the Act, otherwise you will not be entitled to vote at the meeting.

Creditors are required to lodge Proofs of Debt no later than 9:30am on Wednesday, 20 April 2016, failing which they may be excluded from voting at the meeting. A Form 535, Formal Proof of Debt or Claim is *enclosed for this purpose. Proofs of Debt may be sent to Link Insolvency Solutions at Locked Bag A14, Sydney South, NSW, 1235, by fax to (02) 9287 0309 or by emailing queenslandnickel@linkmarketservices.com.au no later than 9:30am on Wednesday, 20 April 2016.

Those creditors who have already lodged a Proof of Debt are not required to lodge a further proof (unless they wish to amend their claim).

A copy of this report, together with other information relating to the Company, can be found on the FTI Consulting web site at http://www.fticonsulting-asia.com/cip.

Pursuant to Section 600G of the Act, creditors can elect to receive future notices, reports and general communications by email, rather than in the post. Should you wish to elect to receive future notices, reports and communications electronically, please complete the Electronic Communication Request Form included with this report and return it to Link Insolvency Solutions at Locked Bag A14, Sydney South, NSW, 1235, by fax to (02) 9287 0309 or by emailing queenslandnickel@linkmarketservices.com.au.

4. Progress of Administration

Below is an update of the progress of the Administration.

4.1 Structure of Appointment

QN was the manager of a Joint Venture operating the Queensland Nickel Yabulu Refinery (the Refinery) involving Joint Venture partners QNI Resources and QNI Metals.

Prior to accepting the appointment as Administrator, FTI Consulting undertook a due diligence of the business to assess the risks of trading the Refinery and determine if QN had access to sufficient assets to enable an Administrator to incur debts (trading liabilities) and be able to pay these debts as they fell due. As a result of this due diligence, we accepted the appointment on the basis that the Administrators were provided with full indemnities, backed with first ranking charges over the assets of both QNI Resources and QNI Metals plus an irrevocable Power of Attorney enabling the Administrators to deal with the assets of QNI Resources and QNI Metals as required.

This arrangement enabled the Administrators to have access to sufficient assets in order to satisfy trading liabilities incurred by the Administrators after 18 January 2016, should there be a shortfall from the trading operations of the Refinery during the Administrators' appointment.

At a further meeting with Mr Clive Palmer and Mr Clive Mensink, on 7 March 2016, the Administrators were served with Notices, dated 3 March 2016, purporting to replace QN as operator of the refinery and appointing Queensland Nickel Sales Pty Ltd as the new operator. Further details regarding the replacement as operational manager are discussed in Section 4.7 of this report.

4.2 Indemnities and Securities

A summary of the indemnities and securities provided to the Administrators prior to accepting the appointment is detailed below. This information was previously provided in the Administrators' First Report to Creditors dated 20 January 2016.

Table 4: Summary of Indemnities and Securities

Description	Definition
Name of Parties	QNI Resources and QNI Metals
Relationship with QN	QNI Resources: holds 80% of the shares in QN which comprise 100% of the A Class Shares on issue; and QNI Metals: 20% of the shares in QN which comprise 100% of the B Class Shares on issue. Mr Clive Mensink is the sole director of QNI Resources, QNI Metals and QN.
Nature of Indemnity	QNI Resources and QNI Metals have each given a guarantee and unlimited indemnity in favour of the Administrators on account of amounts owing to the Administrators by QN and that remain unpaid. The indemnity extends to all liabilities incurred by QN during the Administration, the Administrators on behalf of QN, as well as our remuneration and disbursements. The obligations of QNI Resources and QNI Metals are supported by a General Security Deed - All Property, given by each of those entities in favour of the Administrators.
General Security Deed - All Property	Both QNI Resources and QNI Metals have granted to the Administrators a security interest over all of its present and after acquired property to secure amounts owed by QN and each of QNI Resources and QNI Metals to the Administrators under the Act. This security interest has been registered on the Personal Property Securities Register (PPSR). The appointment of the Administrators to QN does not of itself constitute an Event of Default under this document.

Table 4: Summary of Indemnities and Securities

Description	Definition
Priority Deed	Waratah Coal Pty Ltd (Waratah Coal) and China First Pty Ltd (China First) have taken a security interest over all the present and after acquired property of each of the QN, QNI Resources and QNI Metals (Prior Securities). These securities pre-date the securities given in favour of the Administrators and are registered on the PPSR. The purpose of the Priority Deed is to regulate the competing priorities as between the Prior Securities and the securities granted in favour of the Administrators, including to provide that the securities granted in favour of the Administrators rank in priority to the Prior Securities.
Other Documents - Power of Attorney	An irrevocable Power of Attorney has been granted by each of QNI Resources and QNI Metals (each a Principal) and provides the Administrators with all the rights of a natural person to deal with any assets of a Principal from time to time. In addition, each document incorporates certain undertakings to be given by the Principal to the effect that the Principal must not deal with the Assets without the prior written consent of the Attorney.
Other Documents - Joint Venture Agreement	The Joint Venture Agreement contains restrictions on the provision of security and also the rights of QNI Resources and QNI Metals in any assignment or sale of its interest in the Joint Venture. A Side Letter provided by QNI Resources and QNI Metals addresses certain of these restrictions and requirements.

4.3 Summary of Trading by Administrators

4.3.1 Introduction

The Refinery and the associated Townsville Port facilities together comprise a large, relatively complex production facility and associated infrastructure.

The Refinery has an overall site footprint of approximately 220 hectares and is approximately 1 km in length.

The Refinery is registered as a Major Hazards Facility (MHF) pursuant to the Queensland WHS Act 2011, reflecting, amongst other things:

- The plant's high pressure and high temperature processing circuits;
- The production, consumption and processing of hazardous materials, including noxious and flammable gases;
- The production of various hazardous nickel and cobalt compounds and products; and
- The proximity of the plant to population and environmentally sensitive areas such as the coastal strip abutting the Great Barrier Reef.

The Refinery produces Nickel and Cobalt products by refining nickel ore and intermediate nickel product (NHC) sourced from New Caledonia, Republic of the Philippines (Philippines) and Papua New Guinea (PNG). The Refinery also sources limited lower grade ore domestically. The Refinery relies on a range of critical domestic suppliers including suppliers of coal, ammonia and coal seam gas.

The finished Nickel and Cobalt products are sold to international metal traders and industrial consumers.

On 7 March 2016, the Administrators were served with Notices, dated 3 March 2016, purporting to replace QN as operator of the refinery and appointing QNS as the new operator. Further details regarding the replacement as operational manager are outlined in Section 4.7.

4.3.2 Cash Available Upon Appointment

On our appointment, the available cash balances from QN's AUD$ and USD$ operating bank accounts were approximately, AUD$1.16M and USD$64K. These balances excluded amounts held in term deposits to support bank guarantees which were therefore not available to contribute towards day-to-day operations.

The cash available to the Administrators impacted the immediate commercial options available in our dealings to secure critical imported ore, NHC and other critical Refinery inputs.

The lack of cash for ongoing operations also limited the options available to the Administrators in dealing with the claims of the 237 former QN personnel whose employment was made redundant immediately prior to our appointment. The Administrators did not have the financial capacity to address the unpaid employee entitlements of those former employees. This is contrary to public comment by various parties at or about the time of our Appointment.

4.3.3 Operating Position on Appointment

The low Nickel price over the previous 12 months and a consequential reduction of working capital prior to our appointment generated operating difficulties at the Refinery.

As a consequence, by the time of our appointment:

- Ore and NHC stocks were in limited quantities;
- Maintenance had been impacted;
- Safety and environmental performance had also been impacted; and
- 237 employees had recently been made redundant.

Each of these matters added complexity to the trading environment of the business.

Further information regarding occupational health and safety and environmental issues are outlined at Section 4.5 of this report.

Many of these dealings were inter-dependent and iterative, requiring constant commercial negotiation, ongoing risk assessment, legal analysis, economic modelling and dedicated communications programs.

4.3.4 Increased Cost of Unit Production

On 4 March 2016, QN's Chief Financial Officer advised that the cost of monthly production had progressively increased as shown in the table below. The advised costs are unaudited.

Table 5: Unaudited Nickel Production Costs

Period	USD$ per Pound
Average October to December 2015 (Actual)	4.79
January 2016 (Actual)	5.37
February 2016 (Estimated)	6.34
Projected March 2016 (Estimated)	7.65

The above costs of production compare to an average London Metal Exchange (LME) nickel price of approximately USD$3.76 per pound in February 2016 and an LME nickel price of approximately USD$3.80 per pound as at 31 March 2016.

4.3.5 Failure of Effluent Boilers

A key example of pre-appointment maintenance difficulties is the failure of one (1) of the two (2) effluent boilers within the ammonia production circuit of the Refinery's gas plant several months prior to our appointment. There was no critical spares held against the prospect of such failure and so the failure had an immediate effect of materially reducing critical ammonia production at the Refinery.

Efforts were made to compensate for the loss of the unit through increasing the quantity of ammonia purchases imported to the Refinery (at a cost of approximately $25k per day), and the ordering of expedited remedial works to fix the boiler. Upon our appointment ammonia concentrations had dropped to historic low levels, with a consequent deterioration in nickel and cobalt recoveries to historic low levels. It was estimated that even if the failed boiler could be immediately replaced, it would take a number of weeks for ammonia in circuit to build back up to target concentrations.

QN management estimated nickel recoveries had reduced by approximately 10% as a result of the lower ammonia concentrations.

Despite measures implemented by the Administrators to expedite the necessary repairs to the effluent boiler, including stationing QN employees at the external fabrication provider's premises, the effluent boiler remained out of service through to the time that QN was replaced as manager of the Queensland Nickel Joint Venture.

4.3.6 Ore Stocks

On appointment, the Refinery had limited overseas ore and NHC stocks for processing, resulting in the processing of lower grade domestic ore during the weeks following our appointment. Effective operation of the Refinery requires at least two (2) to three (3) months' ore on the ground to enable better management of refinery production and higher refinery throughput (historically up to six (6) months stocks had been held at the Refinery).

Upon our appointment, QN urgently sought to secure new supplies of imported ore feed. However, a critical New Caledonian supplier refused to enter into new ore supply arrangements until the Administrators had committed to satisfying pre-appointment debts of approximately USD$2.8M and agreed to pay for future supply in advance of loading.

Additionally, unfavourable weather conditions made sourcing new supplies from the Philippines difficult. Most Philippines' mines were yet to re-open following the New Year break and given the current wet season conditions were not ideal for solar drying of the ore prior to loading. This lead to an increased risk of cargo loss or delay through liquefaction during transit to Townsville. One (1) cargo purchased prior to our appointment from the Philippines had liquefied enroute, and subsequently through to the date of replacement of QN as manager of the Queensland Nickel Joint Venture, remained stranded at anchor off PNG.

The efforts to secure imported ore shipment arrangements were not assisted by QN's Marine Charterer's insurance policy expiring prior to our appointment. Vessel owners typically require such insurance to be in place prior to committing to shipping contracts and the Administrators were required to urgently obtain a fresh policy.

4.3.7 Intermediate Nickel Stocks and Associated Issues

At the time of our appointment, QN had approximately three (3) weeks' processing volume of NHC supply. However, its principal supplier refused to provide any further supply until QN paid USD$4.8M on account of a pre-appointment debt, plus made advanced payments for future supplies (totalling between USD$2M and USD$4M). Due to cash shortages, QN was unable to make the historical and/or advance payments and no further NHC was supplied.

4.3.8 Trade Suppliers

In addition to committing to payment of pre-appointment debts owing to the critical New Caledonian supplier, the Administrators were also required to pay over AUD$2.5M (excluding adjustments and certain pre-appointment payroll amounts) towards pre-appointment liabilities owed to critical suppliers to the Refinery to ensure continued supply. These significant payments placed a substantial strain on the ongoing operations and cash flow of the Refinery.

4.3.9 Cash Flow Deficiency

As a result of the above challenges, the Administrators experienced an operating cash flow deficiency, which necessitated requests for additional funding and the sale of surplus plant and equipment. Further details of the Administrators' attempts to obtain funding and the sale of assets are outlined in Section 4.6 and Section 4.8 (respectively) of this report.

4.3.10 Production Shutdown

Overall ore and NHC availability was insufficient to feed continuous production and the Administrators were required to transition the Refinery to a production shut-down from late February 2016.

It was intended to take the opportunity during this shut-down to address pressing maintenance requirements, however the financial cost of this interruption was significant, as an estimated 60% to 70% of the Refinery and Port expenses were fixed (i.e. the costs continued to be incurred despite the cessation of production).

QN was replaced as manager of the Queensland Nickel Joint Venture before the majority of these pressing maintenance tasks could be completed.

4.4 Employees

On 15 January 2016, prior to our appointment as Administrators, 237 Refinery and Port employees were made redundant (former employees). The total redundancy entitlements for these employees totalled approximately $16.2M. As discussed in Section 4.3.2, the cash available upon our appointment was insufficient to enable payment of these redundancy entitlements.

As at the date of our appointment, QN employed approximately 555 employees. It was of the utmost importance for communication to be made and forums held with all employees to advise of the Administrators appointment, provide an overview of the Voluntary Administration process, ongoing trade, future of QN and the effect on the employees. The Administrators set up specific communication lines for the benefit of both former and current employees to submit queries and requests for information.

On 21 January 2016, forums were also held with the former employees, with the following information provided:

- Information in relation to the Administration, which included a letter from the Administrators and ASIC Insolvency Information Sheets;
- Entitlement letters;
- Separation certificates;
- Final Pay slips; and
- Provided the former employees with an opportunity to ask questions of the Administrators.

Weekly communications were issued to the current employees to provide ongoing updates and to respond to frequently asked queries.

Upon our appointment, all employees (former and current) had been paid their base wages up to and including 31 January 2016. Given there were no outstanding wages, the Administrators decided to pay all other outstanding wage claims for overtime and unpaid salary sacrifice amounts (relating to superannuation, child support and union fees), despite these amounts otherwise being claims in the Administration.

Due to QN being replaced as operational manager of the Refinery and Port, there were limited duties remaining for the current employees to perform for QN, therefore on 10 March 2016 the Administrators provided the vast majority of current employees with a Notice of Termination of Employment effective 11 March 2016. The total redundancy entitlements for these employees totalled approximately $55.6M. Further details regarding the replacement of QN as operational manager are discussed in Section 4.7 of this report.

The termination of the current employees was delayed as the new operational manager, QNS, had provided the Administrators with information advising that QNS would extend offers of employment to these employees.

As no offers of employment had been made QNS by 10 March 2016, and it appeared no offers would be forthcoming in the near future, the Administrators were forced to terminate the majority of the remaining staff, given QN no longer had an operational role at the Refinery or associated Townsville port facilities. Neither the Refinery nor Port facilities are currently operating.

Upon notice of termination being provided to the current employees, the Administrators made an effort to prioritise payment of outstanding employee trading liabilities and entitlements for accrued leave, wages, and superannuation as well as to provide the following documentation:

- Separation certificates;
- Entitlement letters;
- Employment agreements;
- Training records;
- Final payslips; and
- PAYG Summary Statements.

These documents, excluding PAYG Summary Statements, were issued in the weeks following the termination of the remaining employees. PAYG Summary Statements will be issued once all payments to employees relating to the Administration period have been made. Documentation such as the training records and employee agreements continue to be provided to employees. Queries from employees to the QN Employees email address significantly increased upon termination of the current employees. These emails included requests from employees for documentation required to lodge a claim with the Commonwealth Government's Fair Entitlements Guarantee Scheme (FEG). Given the significant impact of the appointment of Administrators, a considerable amount of time has been spent responding to employee related queries, preparing entitlement calculations, responding to requests for information and in the preparation and distribution of emails and notices updating employees on the Voluntary Administration process.

In conjunction with the ongoing communication with employees, the Administrators and their staff have been closely liaising with the following third parties in relation to the ongoing employment and subsequent termination of all employees:

- Fairwork Australia;
- ATO;
- WorkCover Queensland;
- The Department of Employment;
- The Department of State Development – including the Rapid Response Team; and
- Weekly meetings with the relevant Unions.

On 30 March 2016, the Administrators issued a Certificate of Debt to QNI Resources and QNI Metals (being the Joint Venture partners) and called upon these entities to make payment of AUD $73.9M in order to meet Joint Venture employee expenses. This amount represents the total of entitlements owed to all former employees of QN. The call is payable by the Joint Venture parties on or before 5 April 2016.

The Administrators' intentions when dealing with employees has consisted of timely communication, provision of information, respect, recovery for payment of entitlements and redundancy packages as well as the provision of sufficient information to consider the options available to them. Overall we have attempted to provide as much assistance as possible to the employees who have been affected by the Administration and the subsequent non-payment of their redundancy packages.

4.5 Occupational Health & Safety and Environmental Issues

4.5.1 Occupational Health & Safety Maintenance

As noted previously, the Refinery is a MHF under the Queensland WHS Act 2011 and requires extensive ongoing planned preventative maintenance and reactive repairs.

Management reported over the three (3) years to 31 December 2015, that the Refinery maintenance spend had reduced significantly to approximately $39M per annum. To put this in context, the Refinery's average annual maintenance expense for the final three (3) years while under the ownership of BHP Billiton was approximately $80M. Management produced financial analysis supporting this view.

Upon our appointment, the Administrators commenced meeting with Refinery management to discuss and identify immediately necessary maintenance expenditure. As an example of the overdue maintenance accumulated, in setting the scope of works to be undertaken during the February production shut-down the Administrators' staff reviewed over 500 separate maintenance expenditure proposals, a number of which had been outstanding since mid-2015.

This reduced maintenance spend was ultimately reflected in increasing trends of safety non-compliance, as tracked by multiple industry standard lead and lag indicators measured within the Refinery's Enterprise Resource Planning, Asset Management and Safety systems.

The Administrators were advised by QN Management that plant and equipment was often required to operate outside standard risk parameters. This was due to spare parts not being available or capital expenditure required to rectify defects had not been committed as it had been considered cost prohibitive.

As at 29 February 2016, there were approximately 80 separate 'Level 4 Operating Envelope Exceptions' recorded in the QN Safety System. This was in comparison to QN Management's target of no more than ten (10) exceptions with a maximum limit of 50 such exceptions pursuant to the MHF safety management plan for the Refinery. 'Level 4 Operating Envelope Exceptions' represent events that demonstrate failure of a critical control in place to prevent a major incident from eventuating.

The maintenance issues were also illustrated by an observed dramatic increase in incomplete critical programmed maintenance "work orders". At the time of our appointment there were in excess of 1,000 critical inspections of plant and equipment within the Refinery identified for action, with over 800 such inspections being overdue.

Upon our appointment, 335 open incidents were recorded in QN's Safety System, with approximately 100 having an outstanding incident investigation period of greater than 30 days. Trend analysis showed these metrics to be worsening.

The main risk area of the Refinery included the Area 320 Exhaust Stack which was deemed to be in a critical condition and at risk of collapse, with an engineering assessment indicating the expectation of a moderate to severe failure on the internal fire brick lining within three (3) years and a 20% probability of this occurring within one (1) year. A moderate to severe failure of the concrete shell was expected within four (4) years, with a 15% probability of this occurring within one (1) year. In practice, this risk exposure was managed through ongoing inspections and the introduction of an operational personnel "exclusion zone" around the potential brick fall radius of the stack.

A number of ongoing plant safety concerns resulted from the major staff reduction (237 employees) implemented prior to our appointment. These included significant reductions to the maintenance planning, maintenance, safety, environmental, administration and procurement workforce, impacted on the ability of QN to address the numerous safety issues and implement the Refinery's ongoing preventative maintenance program.

4.5.2 Hazardous Industries and Chemicals Branch Inspections

The Queensland Hazardous Industries and Chemicals Branch (HICB) attended the Refinery for inspection and audit on three (3) separate occasions in the year to 31 January 2016, being April 2015, October 2015 and January 2016. Their findings highlighted several significant concerns, being:

- The provision of suitable staffing/resources;
- Shortfalls in maintenance of the plant/infrastructure; and
- A lack of progress across the Refinery's Safety Management System against its MHF Safety Management Plan objectives.

In total, 108 recommendations were made in these pre-appointment HICB Surveillance Audits, many of which remained outstanding as at the date our appointment.

The HICB had previously expressed resourcing concerns in its April 2015 and October 2015 MHF Surveillance Audits. In an additional site meeting on 27 January 2016, the HICB raised further and more escalated concerns regarding the ability to operate the Refinery safely give the recently reduced employee levels. The HICB also made a further visit following a roaster incident in February 2016 expressing similar concerns.

Prior to QN's replacement as operational manager of the Queensland Nickel Joint Venture, the HICB announced they would be attending the Refinery again on the 17 March 2016 to undertake a further inspection and audit of progress towards previously expressed concerns.

As a result of the above factors and the expected material expense and lengthy timeframe to bring the Refinery to an acceptable ongoing workplace health and safety standard, the Administrators were considering placing the Refinery into care and maintenance, however were unable to proceed given QN's replacement as operational manager of the Queensland Nickel Joint Venture.

4.5.3 Environmental Issues

The environmental management situation at the date of the Administrators' appointment was concerning.

Upon our appointment, the Administrators' appointed independent environmental consultants to conduct a site evaluation of the Refinery. Our environmental consultants also attended a site environmental review by the Queensland Department of Environment and Heritage Protection in the first week following our appointment.

These initiatives and interactions highlighted a number of areas of current non-compliance and identified that past external environmental audits had noted 15 minor non-compliance areas, which if left unattended could evolve into major issues and potentially result in the suspension of ISO 14001 Certification of the Refinery's Environmental Management System.

In addition, it was noted significant environmental incidents had occurred prior to our appointment. These included the discharge of the tailings dam material to the marine environment in 2014 (which is a zero-discharge facility under the Environmental Authority), following QN Management's decision not to execute the capital works for the tailings dam lift earlier that year. It was also noted that QN was subject to a number of legal proceedings in relation to past environmental incidents, including for *"Wilful Contravention of its Environmental Authority"* and counts of *"Contravening an Environmental Order"*.

In addition to the above, two (2) significant environmental capital expenditure areas were identified in the tailings impoundment area. The first being repairs to the rock armour capping of a previously constructed impoundment cell wall, with estimates to repair ranging from $0.5M to $1.1M. The second being the raising the level of one (1) cell of the tailings impoundment which was estimated to cost between $10M to $12M.

Engineering studies were required to further assess the costs and ultimate requirement for the contemplated tailings cell capital works but these had not yet been undertaken at the time QN was replaced as operational manager of the Queensland Nickel Joint Venture.

4.6 Administrators Funding Requests

Pending receipt of a DOCA proposal, either from the Director, the Company's ultimate shareholder or any interested party, the Administrators were operating the business on a cash flow basis. The Administrators were required to constantly monitor cash levels to ensure we were comfortable we had access to sufficient cash to pay trading liabilities incurred from 18 January 2016.

At the time of our appointment, QN was insolvent and it had experienced a period of severe cash flow shortage. In the preceding six (6) months to our appointment, there had been minimal spending on repairs and maintenance at the Refinery, 237 employment positions were recently terminated triggering redundancy entitlements (which remained unpaid upon our appointment) and many trade creditors had not been paid for a considerable time.

As discussed in Section 4.3, the Administrators cash position suffered due to creditors refusing to supply goods or services until pre-appointment debts were satisfied. These ransom creditors were suppliers that were critical to the Administrators ongoing operations of the business and demanded either payments in advance or pre-appointment debts be satisfied before supply would be made.

Various suppliers demanded and received ransom payments exceeding AUD$6.5M. Eight (8) major suppliers placed significant cash flow strain on the business by seeking ransom payments.

To assist with these cash flow strains, the Administrators took immediate steps to realise surplus assets of the Joint Venture which were not required for ongoing trading. In addition, the Administrators, through the use of their securities, took steps to realise a property owned by the Joint Venture partners. This property is yet to sell as it was recently passed in at auction due to registered bids not meeting the reserve price. Refer to Section 4.8 of this report for further details of the sale of assets.

These non-essential assets generated $3.3M in additional funding to assist with trading operations.

The Administrators identified the business was likely to require additional funding due to the factors outlined in Section 4.3, including:

- Significant immediate imported ore and NCH purchase requirements;
- Remedial maintenance spend;
- The costs of bringing the Refinery to an acceptable standard of workplace health and safety and compliance;
- Environmental issues and the ongoing monitoring and risk associated; and
- As discussed above, the demands of significant ransom creditors.

It was identified there would be a cash flow shortfall of approximately $5M during the month of March and as ransom creditor demands increased and the impacts on the business of limited quantity of pre-appointment stocks and committed shipments of imported nickel ores were felt, this cash flow shortfall quickly increased to approximately $10M for March.

The Administrators approached the owner of the Queensland Nickel Joint Venture parties and Mr Palmer on at least three (3) separate occasions, requesting funding be provided to cover projected cash shortfalls. Mr Palmer declined each such request.

The Administrators had weekly meetings with various senior State Government executives from Treasury, the Queensland Premier's Department and Office of State Development. These meetings were arranged to keep the Government apprised of developments as they occurred. The forecasted cash flow shortfalls were discussed at these meetings and on 22 February 2016, concerns of a $10M funding requirement were escalated through meetings with the Under Treasurer and his Deputy. The Administrators advised the State Government representatives that unless an urgent short term overdraft of $10M was made available, there was a significant risk that the business would cease trading and transition to care and maintenance.

The Administrators again met with the Treasurer's Chief of Staff to reiterate concerns for the need of short term funding and on 4 March 2016 the Treasurer advised that a number of issues needed to be considered before any decisions were made by Government for funding assistance. It became clear that these issues may not be dealt with prior to the previously advised critical funding deadline.

Whilst the letter of advice from the Treasurer suggested State funding might be possible, a number of conditions were attached to this, including that any purchaser of the Refinery would need to agree to be responsible for the economic cost of the environmental clean-up of the Refinery. Agreement to this term of funding would require the Administrators to anticipate (and thereby in essence guarantee the performance of) the financial undertakings of an unidentified prospective purchaser and therefore could not be agreed to in practical terms.

The Administrators were in the process of assessing this offer from the State Government at the time that QN was replaced as manager of the QN Joint Venture.

4.7 Change of Refinery Operational Manager

On 7 March 2016, Administrators, John Park and Stefan Dopking, met with Mr Palmer and Mr Mensink, following various discussions with Mr Palmer over the weekend of 5 and 6 March 2016.

These discussions focused on following up concerns raised during February, including that without immediate access to $10M cash funding the cost of ongoing trading of the Refinery could not be met. As the requested funding was not confirmed or provided, the Administrators highlighted to Mr Palmer and Mr Mensink and later to the State Government that we were strongly considering transitioning the Refinery to care and maintenance.

At a follow-up meeting with Mr Palmer and Mr Mensink, on 7 March 2016, the Administrators were served with Notices, dated 3 March 2016, purporting to replace QN as operator of the refinery and appointing QNS as the new operator. This change had not previously been raised during the earlier meetings with Mr Palmer and Mr Mensink, including the meeting of 4 March 2016, which post-dated the purported date of termination of QN as Manager of the Refinery.

In the 7 March 2016 meeting, Mr Palmer indicated that:

1. Conditional funding had been sourced exceeding $20M to fund ongoing operations by QNS;
2. QNS would offer current QN employees positions on the same employment terms; and
3. QNS would conduct business operations going forward.

The Administrators were requested to urgently transfer USD$1M to an ore supplier to facilitate delivery of ore that had previously been ordered by the Administrators to enable a smooth transition of management of the Refinery. That payment was made on 7 March 2016 to assist with maintaining business operations.

Following the appointment of the new operational manager it became apparent the change had been implemented without suitable arrangements for many practical issues. Also a number of actions were taken by QNS to access assets which the Administrators viewed were assets of QN. For example, after QN was replaced as operational manager it became apparent that:

1. Most major suppliers cancelled arrangements and refused to deal with QNS until satisfactory trading terms could be negotiated;
2. No Environmental or Hazardous Plant Licenses had been arranged by QNS despite the well documented concerns regarding environmental compliance;
3. QNS had no immediate funding for employee staff;
4. QNS was without sufficient funds to pay trading liabilities which had been incurred during the appointment of the Administrators;
5. QNS had advised Government that it no longer intended to apply for a Hazardous Plant Licence;
6. QNS confirmed it would not take over the assignment of ore contracts, leaving QN having to exit existing supply contracts and incur a significant loss due to cancellation penalties from shipping and ore suppliers;
7. QNS issued invoices to QN debtors for ore supplied by QN, and communicated with QN debtors instructing that no funds be paid to QN. As a result, QN was unable to collect debtor monies to pay post appointment trade creditors and employees; and
8. QNI Metals and QNI Resources (using their purported interest under the Joint Venture Agreement) wrote to the National Australia Bank Limited (NAB) and demanded the Administrators trading bank accounts be frozen. As a result QN could not pay its trade on creditors and employees.

Any losses eventuating from the unexpected change of manager are costs of the Administration and as such recoverable by the Administrators under first ranking securities held against the assets of QNI Resources and QNI Metals. It should also be noted that this replacement was in breach of the securities and Power of Attorney granted to the Administrators.

4.8 Sale of Assets

4.8.1 Equipment

At the time of our appointment, we identified a number of mobile equipment assets that were surplus to operational requirements. The Administrators engaged Grays Valuers and Auctioneers to sell down the surplus equipment, generating net proceeds of $3.3M. The sale items included Freightliner Tippers, trailers, Caterpillar trucks, and dump trucks. Details of the sale proceeds received and realisation expenses paid are included as Annexure 2.

4.8.2 Real Estate

Pursuant to the Power of Attorney granted to the Administrators, we were authorised to sell a cattle property held by QNI Metals known as “Mamelon”, Marlborough (the Property) to assist with funding the operational costs of QN.

Mamelon is primarily a beef cattle grazing property being approximately 6,266 hectares, located 115 km north-west of Rockhampton, Queensland. The Property was previously sold in 2006 for $5.5M, and was purchased by QNI Metals in 2010 for $8.25M.

The table below outlines the mining interests registered over the Property prior to the sale. Fairway Coal Pty Ltd (Fairway) and Styx Coal Pty Ltd (Styx) are related entities to QN.

Table 6: Registered Mining Interests over the Mamelon Property

Mining Interest	Company	Licence Number
Exploration Permit – Coal	Fairway Coal Pty Ltd Scorpion Energy Pty Ltd	EPC1029 EPC2128
Exploration Permit - Minerals other than Coal	Bandanna Oil Shale Pty Ltd	EPM16553
Mineral Development Licence	Fairway Coal Pty Ltd	MDL468
Product Permit - Mining Lease	Styx Coal Pty Ltd	ML80187

Prior to the commencement of marketing, the Administrators obtained three (3) marketing submissions from Colliers International (Colliers), CBRE and Ray White, with Colliers being selected to market the Property. Marketing commenced on 22 February 2016 through print media advertising, online listings, and direct marketing through Colliers' database. The auction was scheduled to be held 18 March 2016.

At the time of our appointment, we were advised that no Conduct and Compensation Agreement (CCA) had been executed between QNI Metals and the registered mining interest holders, and it was the intention of Fairway and Styx to negotiate CCA's with the purchaser following completion of the sale.

On 18 March 2016, only hours before the auction, the Administrators were advised CCA's had been entered into that day between QNI Metals, Fairway and Styx. This created uncertainty for interested parties and potentially reduced the market value of the Property. The CCA's were not favourable to the land owner. The auction of the Property was consequently postponed to 23 March 2016, where the Property was passed in, not meeting the reserve. Negotiations for sale of the Property are continuing at the time of this report.

The Administrators are currently in negotiations with these parties to have the CCA's removed from title. A further update on this matter will be provided at the Second Meeting of Creditors.

4.9 Committee of Creditors Meetings

At the First Meeting of Creditors held on Friday 29 January 2016, pursuant to Section 436E(1) creditors elected a Committee of Creditors which consisted of eleven (11) various committee members.

Table 7: Committee of Creditors

Creditor Name	Committee Representative
Douglas Dunstan	Himself
Port of Townsville Limited	Esther Slocombe
Deputy Commissioner of Taxation	A representative from the Deputy Commissioner of Taxation
Aurizon Operations Limited	David Wright
Townsville City Council	Tony Bligh

Table 7: Committee of Creditors

Creditor Name	Committee Representative
National Pump & Energy Pty Ltd	Rod Hayes
William Anderson	Himself
Rupert Newell	Himself
Societe Des Mines De La Tontouta	Benoit Ponis
Members of Australian Workers Union	Ben Swan
Water Treatment Services (AUST) Pty Ltd	Sonia Barron

The functions of the Committee of Creditors are to:

1. Consulting with the Administrators about matters relating to the Administration; and
2. Receiving and considering reports by the Administrators.

The Committee cannot give directions to the Administrator. As and when a committee reasonably requires, the Administrator must report to the committee about matters relating to the Administration.

The Committee is required to act in the best interests of all creditors and not in their personal capacity. The members of the Committee do not get paid for serving on the Committee and get no other preferential treatment in terms of dealing with your claim.

Since the First Meeting of Creditors, the Administrators have had various communications with the Committee and have also held three (3) Committee Meetings. The discussions at the three (3) Committee meetings have been centred on the following topic areas:

- Trading of the refinery, issues overcome by Administrators, workplace health and safety and environmental issues;
- The Administrators' intention to apply to Court to extend the Convening Period for the Second Meeting of Creditors;
- Investigations undertaken and the preliminary results from those investigations (including updates on the Waratah Coal and China First securities);
- Options available to creditors at the Second Meeting of Creditors; and
- To consider and approve the Administrators' remuneration.

The Administrators will recommend that another Committee be elected at the Second Meeting of Creditors (comprising of the same or different members) to assist a Liquidator on matters that may arise during the Liquidation.

4.10 Overview of Investigations

Under the Act, we are required to investigate the Company's business, property, affairs and financial circumstances.

Pursuant to Regulation 5.3A.02 of the Act, we are also required to investigate and report to creditors on any possible recovery actions that would be available to a Liquidator, if creditors resolve to place the Company into liquidation.

We have conducted investigations into the affairs of the Company over the extensive period of six (6) financial years preceding our appointment (i.e. 1 July 2010 to 18 January 2016). The purpose of the investigations is to identify any assets or voidable transactions which may be able to be recovered should the Company be placed into Liquidation. The outcomes of the investigations thus far are discussed in Section 6 of this Report.

We have also carried out investigations into the conduct of the Director of the Company, Mr Mensink, as well as any shadow or de facto directors. We have considered whether any of these individuals have breached their duties under the Act or at common law. Please refer to Section 6.4 for further details.

Mr Mensink has provide us with his duly completed Report as to Affairs as Director of the Company. Further details are outlined in Section 5.6 of this Report.

4.11 Joint Venture Call Notice

Pursuant to Clause 6 of the Queensland Nickel Joint Venture Agreement (QNJVA) QN has the ability to issue Call Notices to the Joint Venture parties for contributions for costs incurred under the QNJVA.

> Clause 6.4(a) states (inter alia) that *"Subject to Clauses 7 and 8, the General Manager....shall make calls on Joint Venturers for funds to meet all costs, liabilities and expenses of the Joint Venture properly incurred (hereinafter referred to as "Joint venture Expenses")....."*

In our view, Clause 6.4 of the QNJVA contemplates QN can make calls for funds which are not included under an approved annual financial plan, provided that the calls are for costs, liabilities and expenses of the Joint Venture which are properly incurred. The Administrators believe the Joint Venturers should be called upon to satisfy those outstanding liabilities, incurred on behalf of the Joint Venture prior to the appointment of the Administrators, through this mechanism.

On this basis, the Administrators have issued two (2) Call Notices or Certificates of Debt in relation to pre-appointment creditor claims as detailed below:

1. Employee Entitlements – A Certificate of Debt was issued on 30 March 2016 in the amount of $73.9M and payable on or before 5 April 2016. This claim includes all entitlements owing to employees for debts due as at 18 January 2016 either because of their employment at that date or as a consequence of the termination of their employment on 15 January 2016.

2. Pre-Appointment Creditor Claims – A Certificate of Debt was issued on 6 April 2016 in the amount of $116.18M and payable on or before 12 April 2016. The debts captured by this Claim are the known unsecured claims as at 6 April 2016, excluding any contingent claims in relation to damages or other uncertainties.

As at the date of this report, payment has not been received in respect to either Call Notice. As the Call Notice represents notification and a demand for payment of a claim against the Joint Venturers, QNI Resources and QNI Metal, it is the Administrators' intention to commence legal recovery of these claims against those parties. In this regard, a Statutory Demand will be issued with respect to the recovery of the Employee Entitlements claim. Should this demand not be satisfied, steps will be taken to seek the appointment of a liquidator to the Joint Venturers. The Administrators believe that QNI Resources and QNI Metals may have sufficient assets available to satisfy this claim.

4.12 Pre-Existing Legal Actions

Upon our appointment, QN was a party to ten (10) Court proceedings. Eight (8) of the proceedings were commenced by QN, with three (3) of those proceedings being subject to a Counterclaim filed against QN.

Pursuant to Section 440D of the Act, '*a proceeding in a court against the company or in relation to any of its property cannot be begun or proceeded with, except with the administrator's written consent; or with the leave of the Court*'.

Accordingly, having regard for the counterclaims filed against QN, three (3) of these proceedings are stayed.

In the event QN is placed into Liquidation, these same proceedings are stayed pursuant to Section 471B of the Act, except with leave of Court.

The remaining proceedings are still active despite the Administration of QN. As such, it has been necessary to engage legal representation to attend to these proceedings, where required, in order to preserve the interests of QN in same until such time as the Administrators (or Liquidators) can assess the merits of each of these proceedings, and determine the appropriate course of action for the benefit of creditors.

Details of all pre-existing legal proceedings are discussed further in Section 7.4 (Note 7).

4.13 Receipts and Payments of the Administration

Detailed at Annexure 2 is a summary of the receipts and payments for the period from 18 January 2016 to 31 March 2016. Further details in relation to the receipts and payments are available on request, provided sufficient notice is given to comply with the request.

5. Company Background

5.1 History of the Company

Detailed below is information regarding the Company obtained from a company search obtained from Australian Securities and Investments Commission (ASIC) as at the date of our appointment.

Table 8: Company Information

Item	Details
Commencement Date	13 April 1970
Registered Office	1 Greenvale Street, Yabulu QLD 4818
Trading Premises	1 Greenvale Street, Yabulu QLD 4818

Table 9: Shareholding Information

Shareholder	Number of Shares Held	Class of Share	Beneficially Held and Fully Paid Up
QNI Resources	160	A	Yes
QNI Metals	40	B	Yes

5.2 Personal Property Security Registrations

Detailed at Annexure 3 is information regarding the Company obtained from a search of the PPSR as at the date of our appointment.

5.3 Director and Officers

Detailed below is information regarding all Directors and Secretaries of the Company, from the previous five (5) years, obtained from ASIC.

Table 10: Current and Former Directors and Officers

Name	Position	Commencement Date	Cessation Date
Clive Theodore Mensink	Director Secretary	16 February 2015 30 May 2013	Current Current
Ian Maurice Ferguson	Director	8 July 2015	23 July 2015

Table 10: Current and Former Directors and Officers

Name	Position	Commencement Date	Cessation Date
Michael Anthony Fitzsimmons	Secretary	8 July 2015	23 July 2015
Clive Frederick Palmer	Director	22 January 2015	16 February 2015
Clive Theodore Mensink	Director	5 April 2014	22 January 2015
Clive Frederick Palmer	Director	17 April 2013	5 April 2014
Ian Maurice Ferguson	Director	30 January 2013	24 December 2013
Clive Theodore Mensink	Director	17 April 2013	24 December 2013
Phillip James Collins	Director	30 January 2013	17 April 2013
Clive Frederick Palmer	Director	31 July 2009	30 January 2013
Tony McLellan Stocks	Secretary	14 December 2012	30 May 2013
Michael George Palmer	Director	12 October 2012	3 December 2012
Clive Theodore Mensink	Director	12 October 2012	3 December 2012
Man Kin Tam	Director	30 May 2012	6 June 2012
Basil Ahyick	Director	25 March 2008	3 April 2012
Daren Wolfe	Secretary	12 February 2010	4 January 2013
Derek Andrew Payne	Secretary	31 July 2009	14 December 2012
Trefor David Flood	Director	12 February 2010	6 March 2012
Neil Eugene Meadows	Director	16 December 2009	15 April 2011

The Administrators have also undertaken investigations to determine if any persons acted in a capacity as a shadow or a de facto director. Further details in respect to these investigations are discussed in Section 6.4.1.

5.4 Related entities

Detailed below is a summary of related entities of the Company, who have lodged a Formal Proof of Debt in the Administration. Detailed at Annexure 4 is the organisational chart for the related parties.

Table 11: Related Party Claims

Name	Nature of Claim	Amount $ (AUD)
Cart Provider Pty Ltd	GST refund owed from purchase of various golf carts	41,364
China First	Subscription for 2 billion shares in China First, payable in two (2) instalments of $67.5M on or before 31 December 2017 and 31 December 2018.	135,000,000
Clive Palmer	Outstanding loans	2,659,073
Clive Mensink	Employee Entitlements	277,183
QNI Metals	Expenses incurred by Queensland Nickel Pty Ltd during the 2016 FY which have not been approved by the Joint Venture Parties.	61,608,314
QNI Resources	Expenses incurred by Queensland Nickel Pty Ltd during the 2016 FY which have not been approved by the Joint Venture Parties.	246,433,255
Ryan Mensink	Employee Entitlements	825
Waratah Coal	Waratah Coal proposed to offer its coal tenements as security to assist Queensland Nickel in obtaining funding for general trading requirements.	100,000,000

The claims lodged by China First Pty Ltd and Waratah Coal have been considered and legal advice obtained. The Administrators are of the opinion the claims lodged by Waratah Coal and China First are invalid for the purposes of voting at the Second Meeting of Creditors. Please refer to Section 6.6.2 for further details.

The claim lodged by Cart Provider Pty Ltd (Cart Provider) relates to the purchase of 65 golf carts by QN. The purchase price was reflected in the Company records as a loan from QN to Cart Provider. Cart Provider lodged their ATO Business Activity Statement reporting the purchase of the golf carts and was entitled to a GST refund. The refund was paid into QN's bank account and these funds were never remitted to Cart Provider. This claim has been admitted for voting purposes only and will be subject to formal adjudication should there be a dividend paid to unsecured creditors.

The claims lodged by QNI Resources and QNI Metals relate to allegations by the Joint Venture Owners that QN had engaged in unauthorised activity, having failed to obtain an approved budget for the 2015/16 financial year, as required under the Joint Venture Agreement. QNI Resources and QNI Metals have made a claim for expenses incurred by the Joint Venture during this period on the basis QN ought not have incurred those expenses in the Joint Venture in the absence of an approved budget. These claims are in dispute and will not be admitted for voting purposes at the Second Meeting of Creditors.

The remaining claims have been reviewed and the Administrators are satisfied that the amounts claimed are substantiated with sufficient supporting evidence and are valid for the purposes of voting only at this stage.

Formal adjudication on all claims will be conducted by a Liquidator should there be sufficient recoveries to enable a dividend to the above parties.

5.5 Events Leading up to Administration

Our investigations have revealed that the following material events were the primary cause leading to our appointment as Administrators:

- Nickel prices are at a 10 year low;
- High use of cash in respect to related parties;
- Limited cash available to pay ongoing trading losses;
- Workplace health and safety issues;
- Environmental issues; and
- Lack of working capital.

5.6 Report as to Affairs

A Report as to Affairs (RATA) dated 24 March 2016 was provided by the Director, Mr Mensink, to the Administrators on 5 April 2016. A RATA provides information on the financial position of QN as at the date of our appointment.

A summary of the RATA is detailed below:

Table 12: Report As To Affairs

Description	Book Value $	Estimated Realisable Value $
Assets not specifically charged	0	0
Assets subject to specific charges (net of specific charges)	0	0
Total assets	**0**	**0**
Less payable in advance of secured creditor(s)	(30,291,768)	(30,291,768)
Less amounts owing and secured by debenture or floating charge over assets	(0)	(0)
Less preferential claims ranking behind secured creditors	(135,000,000)	(135,000,000)
Balances owing to partly secured creditors	(7,178,713)	(7,178,713)
Balances owing to unsecured creditors	(53,920,066)	(53,920,066)
Contingent assets	(0)	(0)
Contingent liabilities	(0)	(0)
Estimated surplus/(deficiency) subject to the costs of the Administration	**$ (226,390,547)**	**$ (226,390,547)**

5.7 Historical Financial Performance

Financial statements were not prepared individually for QN, but rather for the Joint Venture Group. Audited Financial Statements for the Joint Venture Group were last prepared as at 30 June 2015.

The Administrators note that cash flow statements were prepared by QN for the Joint Venture typically on a weekly basis, or more regularly, if required. The last statement was prepared as at 15 January 2016.

Detailed in Annexure 5 are the publicly available financial statements for the Queensland Nickel Group. The Queensland Nickel Group financial statements disclose the following:

- the net asset position of the Group has been reported to significantly improve in 30 June 2015 to $1.95M from $0.56M from 30 June 2014. The material changes between these periods relate to the following Balance Sheet movements:

  - Revaluation of the Joint Venture Group property, plant and equipment from a ‘cost model’ to a ‘revaluation model’, where the assets were recorded at their ‘fair value’ based on a discounted cash flow model (both allowed under Australian Accounting Standards Board (AASB) 116). The result of this adjustment for FY2015 is that the value of property, plant and equipment (net of accumulated depreciation) increased from $0.5M to $2.15B and the Joint Venture recorded an increase in pre-tax profits by $0.6M, whilst the remainder was recorded in the Joint Venture’s revaluation reserve (an equity account).

  - Reassessment of the Joint Venture Group’s obligation to rehabilitate the land upon the Refinery’s closure. The Joint Venture Group previously based its rehabilitation provision on a requirement to rehabilitate the Refinery site to an ‘original undisturbed state’. In FY2015 the Joint Venture Group changed the provision to be based on a requirement to rehabilitate the refinery site to an ‘industrial use’ standard. The provision decreased in FY2015 from $318.6M to $42.5M. The effects of this change appear to have been recorded as changes to the Joint Venture Group’s asset values (not profit/loss).

- The Group’s working capital ratios (current assets available to meet current liabilities) remained strong throughout the financial years ending 30 June 2014 and 30 June 2015.

- The Group reports a substantial profit in the financial year ending 30 June 2015 in the amount of $453M (from a $55M loss in the prior year). The key driver of the profit comes from the adjustments made to the value of property, plant and equipment, resulting in a reversal of depreciation from previous periods. In the absence of having made such an adjustment, the Group would have reported a loss of $144M in the same period.

A review of QN management accounts indicates the following:

- Whilst the QN working capital ratios (current assets available to meet current liabilities) remained positive, they have declined from 1.98:1 for the financial year ending 30 June 2015 to 1.49:1 and 1.3:1 as at 30 September 2015 and 31 December 2015 respectively.

- QN’s earnings before interest, tax, depreciation and amortisation (EBITDA) is negative for each month from March 2015 to the date of our appointment, with varying fluctuations in margins. At worse, the management accounts reveal EBITDA margin of (72.02)% in August 2015, with an average of (34.64)% EBITDA margin across November 2015 and December 2015.

- the decline in gross margin on sales is particularly marked and is attributable to factors previously dealt with in Section 5.5 above

- It is apparent from QN’s management accounts that only a substantial capital injection and turnaround in trading activities would have enabled QN to continue in operation at the Refinery.

Please refer to Annexure 6 for further details of the Administrators’ financial analysis.

5.8 Searches

Motor vehicle and property searches have been carried out with a view to determine if QN is the registered owner of any motor vehicles or property. These searches were only undertaken in the state of Queensland. A summary of the property searches conducted are included as Annexure 7.

Searches reveal that QN is the sole registered owner of four (4) lots, which form part of the Yabulu Refinery property. Numerous other lots, which make up the balance of the refinery property are either jointly or solely owned by QNI Resources and QNI Metals.

A search with the Department of Transport reveals that QN is the registered owner of 27 vehicles. The vehicles owned by QN have been sold by the Administrators and the remaining vehicles, while registered in the name of QN are assets of the Joint Venture Group.

6. Investigations

6.1 Administrators' Investigations

Under the Act, we are required to investigate the Company's business, property, affairs and financial circumstances.

Pursuant to Regulation 5.3A.02 of the Act, we are also required to investigate and report to creditors on any possible recovery actions that would be available to a Liquidator, if creditors resolve to place QN into Liquidation.

As mentioned earlier, we have conducted investigations into the affairs of QN over an extensive period of six (6) financial years preceding our appointment (i.e. 1 July 2010 to 18 January 2016). The purpose of the investigations is to identify any assets or voidable transactions which may be recoverable should QN be placed into Liquidation.

The outcomes of our investigations are detailed below, and will continue in the event of QN being placed into Liquidation. Independent legal advice will need to be sought in order to determine the likely success of any actions contemplated in respect to the matters detailed below.

6.2 Overview of Administrators' Investigations

Our investigations to date have focused on the following:

- Breaches of duty and other offences under the Act by the Director and any shadow director of the Company; and
- Potential actions by a Liquidator (if appointed), including and not limited to:
  - Voidable Transactions; and
  - Insolvent Trading Claim.

6.3 Approach to Preliminary Investigations

Throughout our preliminary investigation, we have:

- Directed QN IT staff to maintain the security of the IT systems to mitigate the risk of inappropriate access to QN's IT systems.
- Directed QN technical staff to extract and provide us with the following data:
  - Selected files and directories located on the QN servers;
  - Selected email mailboxes; and
  - Backup copy of QN's SAP data.
- Acquired forensic copies of the data which was extracted by QN employees and provided by us to allow us to undertake analysis of data and electronic files.

Further to the computer forensic aspects outlined above, we also:

- Held discussions with the Director and senior management of the Company;
- Held discussions with key employees, including the Financial Controller;
- Conducted investigations into significant leads for enquiry provided by creditors and former employees of QN;
- Identified, reviewed, reconstructed where required, and analysed financial information in both hard copy and electronic form;
- Undertaken searches of various publicly available databases; and
- Spoken with various external parties, including suppliers of goods and services and customers of the Company.

6.4 Offences under the Act by Directors

Section 438D of the Act requires an Administrator to lodge a report with ASIC if it appears that:

- A past or present officer, or member, of the Company may have been guilty of an offence in relation to the Company; or
- A person who has taken part in the formation promotion, administration, management or winding up of the Company may have misapplied money or property of the Company or may have been guilty of negligence, default, breach of duty or trust in relation to the Company.

We set out below our comments as to whether investigations are warranted in relation to particular offences.

6.4.1 Shadow and/or De Facto Director

For the purposes of the Act, a director is defined to include a person who, while not formally appointed as a company director (or listed on ASIC records), acts in that role or on whose instructions or wishes the directors of the company are accustomed to act. A shadow/de facto director owes the same duties to the company as a formally appointed director, being someone whom had the potential to control decisions of the company and exercised this power.

It is important to note a person is not a shadow/de facto director merely because the company acted on directions given by that person in the proper performance of functions attaching to that person's business relationship with the company or the appointed director.

During the course of our appointment, we have carried out investigations into the conduct of various individuals whom may have acted in the capacity of a shadow/de facto director. Our observations indicate Mr Palmer, a former Director of the Company, appears to have acted as a shadow/de facto director of QN at all material times from February 2012 up to the date of our appointment on 18 January 2016 (excluding any tenure as appointed Director, as outlined below).

Our observations are summarised as follows:

- Mr Palmer has been an appointed Director of the Company on three (3) occasions, for tenures of:
  1. Three (3) years and six (6) months (31 July 2009 to 30 January 2013);
  2. Approximately one (1) year (17 April 2013 to 5 April 2014); and
  3. Less than one (1) month (22 January 2015 to 16 February 2015).
- Mr Palmer's official roles have otherwise been limited to his directorship and shareholdings in related entities and their subsidiaries (see Appendix 10).
- Despite the above, Mr Palmer is a current signatory on three (3) bank accounts in QN's name, where he has capacity to authorise transactions on these accounts solely and independent to the other authorised signatories on the account. Further, on two (2) of these accounts, all other authorised signatories were required to have one (1) co-signee.
- Mr Palmer formed part of QN's expenditure approval process committee as 'Chairman' and held the highest level of authority (release code A3). This level of approval is required for all expenditure requests with a value greater

than $10,000, and is shared only with the Director, Mr Mensink. The other approvers comprised of key management personnel.

- From May 2014 and at all material times up to 18 January 2016 (excluding the period of his third tenure as an appointed Director), Mr Palmer exercised powers in controlling the decisions of the Company by way of:

  1. either expressly approving or rejecting expenditure requests of varying amounts both within and below his approval threshold, or in the alternative, failed to act on such a request, controlling the Company's ability to obtain supply or services, or to undertake repairs or other works, in the day to day operations of the refinery;
  2. dealing with Company staff in day to day operational matters, including (but not limited to):
     (a) supplier contract negotiations;
     (b) ore supplies (pricing and shipments);
     (c) the sale of surplus operational equipment (motor vehicles); and
     (d) employment and remuneration matters.

By correspondence received on 11 April 2016, Mr Palmer alleges his actions in any activity relating to the Joint Venture business was consistent with the rights and obligations set out in the Joint Venture Agreement and his role as a member of the Joint Venture Operating Committee which operates under the Joint Venture Agreement.

Based on the evidence available to date, the Administrators have conducted investigations on the basis that Mr Palmer is a shadow/de facto director of QN, and owed the same duties to QN as the formally appointed Director, Mr Mensink (herein referred to collectively as the Directors).

6.4.2 Books and Records

Failure to maintain adequate books and records may be relied upon by a Liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Division 2 of Part 5.7B of the Act.

From our investigations to date, we consider that the Company has maintained books and records in accordance with the requirements of the Act.

6.4.3 General Duties of a Director under the Act

The Act requires a director to exercise their powers and discharge their duties:

- with the degree of care and diligence that a reasonable person would exercise (Section 180); and
- in good faith in the best interests of the company and for a proper purpose (Section 181).

Further, a director must avoid conflicts between the interests of the Company and their own personal interests and are not to:

- improperly use their position to gain an advantage for themselves or someone else or cause detriment to the company (Section 182); or
- improperly use information to gain an advantage for themselves or someone else or cause detriment to the company (Section 183).

A breach of these duties may result in civil penalties and compensation for damages in the event the directors are found guilty of having committed such an offence.

Section 184 of the Act refers to a breach of director duties as a criminal offence if a director:

- is reckless or intentionally dishonest, and fails to act in good faith in the best interests of the company or for a proper purpose;
- uses their position or the information available to them in their capacity dishonestly with the intention to directly or indirectly gain a personal advantage, or cause detriment to the company; or

- is reckless as to whether the use of their position or information may result in gaining a direct or indirect personal advantage, or cause detriment to the company.

In addition to the duties of a director under the Act, there are also fiduciary duties and duties at common law by which a director is bound. These duties are listed below.

Fiduciary Duties:

- the duty to act in the interests of a company as a whole;
- the duty not to act for an improper purpose;
- the duty of care and diligence;
- the duty to retain discretion;
- the duty to avoid conflicts of interest;
- the duty not to disclose confidential information.

Common Law Duties:

- the duty to exercise discretion;
- the duty to exercise power for proper purpose; and
- the duty to avoid conflicts of interest.

We have conducted investigations into the affairs of the Company, and observed the manner within which the Directors exercised their powers and duties in their roles for the Company. We have considered the evidence available and are of the view Sections 180, 181, 182, 183 of the Act may have been breached. Further, there are indications the Directors may be in breach of their common law and fiduciary duties and may have also committed offences under Section 184 of the Act:

A summary of the circumstances that may contain possible offences committed by each of the Directors are set out below:

- They directed and/or authorised QN to enter into transactions with related parties which do not appear to have been in the best interests of QN or for a proper purpose;
- In their capacity as Directors' of QN, they each appear to have failed to exercise discretion and avoid the conflict between the interests of QN and their own personal interests in related parties, and as Directors, shareholders and/or political party members of the related parties, may have gained an advantage directly and indirectly;
- The Directors may have gained the advantage as a result of the use of their position as a Director of QN and the information obtained by them as a Director;
- Their actions appear to have caused significant detriment to QN, having potentially appropriated assets ordinarily available to QN, and extinguishing any and all available alternatives and opportunities to QN in any short and long term business strategy;
- The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.
- Both Mr Mensink and Mr Palmer, in our view, appear to have been reckless, in exercising their duties and powers as Directors of QN.

Ultimately, the determination of whether the Directors have breached their duties will be made by a Court.

6.5 Auditors' Conduct

Prior to our appointment, QN, in its capacity as the Joint Venture Operator, engaged Ernst and Young (the auditors) as the auditors of the Joint Venture. In FY2015, the auditors were engaged to express opinions on whether:

- The financial reports of QNI Resources, QNI Metals and their controlled entities gave a true and fair view of the financial position and performance of each entity in accordance with the Act, including complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- The financial report of Queensland Nickel Joint Venture presents fairly, in all material respects, the financial position, results of operations and cash flows of Queensland Nickel Joint Venture in accordance with the joint venture's accounting policies.

QN as a standalone entity did not prepare financial statements and was never audited (during the period FY2010 to FY2015). The Administrators are still considering whether this was the correct legal position for QN to take.

Despite the consolidation of QN's financial position within the Joint Venture Group, the Administrators have considered the audited financial statements of the Joint Venture Group, QNI Resources and QNI Metals for the years ending 30 June 2010 to 30 June 2015, as well as the Auditor's Report on same.

As part of the investigation, the Administrators have analysed the appropriateness of the financial statements and any material changes in the representation of the Joint Ventures financial position and performance over that time.

Material changes have been observed in the financial year ending 30 June 2015. From our review of QN's records and discussions with key management, the material changes are:

- Revaluation of the Joint Venture Group property, plant and equipment from a 'cost model' to a 'revaluation model', where the assets were recorded at their 'fair value' based on a discounted cash flow model (both allowed under AASB 116). The result of this adjustment for FY2015 is that the value of property, plant and equipment (net of accumulated depreciation) increased from $0.5M to $2.15B and the Joint Venture recorded an increase in pre-tax profits by $0.6M, whilst the remainder was recorded in the Joint Venture's revaluation reserve (an equity account).
- Reassessment of the Joint Venture Group's obligation to rehabilitate the land upon the Refinery's closure. The Joint Venture Group previously based its rehabilitation provision on a requirement to rehabilitate the Refinery site to an 'original undisturbed state'. In FY2015 the Joint Venture Group changed the provision to be based on a requirement to rehabilitate the refinery site to an 'industrial use' standard. The provision decreased in FY2015 from $318.6M to $42.5M. The effects of this change appear to have been recorded as changes to the Joint Venture Group's asset values (not profit/loss).

The Auditor's Report indicates they have relied on the information from management in respect to these material changes, and have otherwise not formed a view on the appropriateness of the change in accounting treatment, the method of calculation, or the reasonableness of the adjustments.

Any action by a Liquidator against the Auditors for any alleged negligence or breach of contract, would need to prove, inter alia:

- QN was required to prepare audited financial statements, and that the Auditors should have been aware of this (noting that at this stage the Administrators have not concluded a view on whether QN was required to prepare audited financial statements). This may include proving that QN did meet the definition of 'large proprietary company' under the Act; or
- QN and/or its creditors received and placed reliance on the financial statements prepared by the Joint Venture Group, and that the auditors were aware of this reliance; and
- The material changes noted above (revaluation of the Joint Venture Group's property, plant and equipment, and the reassessment of the rehabilitation provision) did not comply with relevant accounting standards; and
- The Auditor's opinions expressed in its audit reports were not appropriate given the circumstances.

At this stage the Administrators believe a Liquidator would have low prospects of success in recovering any funds through a claim against the Auditors.

6.6 Potential Recovery Actions Available to a Liquidator

6.6.1 Unfair preferences

If QN is placed into Liquidation, various provisions of the Act enable the Liquidator to recover certain payments that were made by QN to a creditor prior to QN being placed into Voluntary Administration, referred to as unfair preferences. These are transactions where the payment results in a creditor receiving more than it would have received in the winding up of the Company. A Liquidator is able to look back at the preceding six months to determine whether or not any such transactions occurred i.e. a Liquidator is able to review transactions between the periods 19 July 2015 to 18 January 2016.

In order to prove a creditor received an unfair preference payment, the Liquidator must first show that the Company was insolvent at the time of the payment.

The creditor has a defence to an unfair preference claim by a Liquidator if it proves that it entered into the transaction in good faith and, at the time the benefit was received, the creditor had no reasonable grounds for suspecting that the company was insolvent or would become insolvent through entering into the transaction and valuable consideration was given, nor would a reasonable person in the creditor's position have suspected that the company was insolvent or would become insolvent.

A review of QN's records reveal the Company made payments to over 800 creditors totalling $259M in the six (6) months prior to our appointment. Our investigations indicates certain payments within this period may be voidable, with up to 52 separate creditors having possibly received preferential payments. It is likely that some of these creditors will have valid offsetting claims which will decrease the recoveries available to a Liquidator. Further, recoveries will be limited to payments made on or after the estimated date of insolvency. Based on a date of insolvency of 27 November 2015, potential preferential payments totalling $18.4M were made to creditors on or after this point in time.

Subject to the availability of funding, should QN be placed into Liquidation, further action will be undertaken by a Liquidator to recover preferential payments for the benefit of creditors, provided it is commercial to do so, having regard for the date of insolvency and creditors knowledge of same.

6.6.2 Uncommercial Transactions and Director Related Transactions

A transaction of a company is an uncommercial transaction if the following elements are established by a Liquidator:

- The transaction was entered into or given effect to within two (2) years of the date of appointment of the Administrator.
- At the time the transaction was entered into, or when given effect to, the company was insolvent or became insolvent as a result of the transaction.
- A reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefits and detriments to the company in entering into the transaction and the respective benefits to other parties.

The defences available to a party involved in an uncommercial transaction claim are, in effect, the same as those for an unfair preference.

Alternatively, a transaction of a company is an unreasonable director-related transaction where the following elements are established by a Liquidator:

- The transaction represents a payment made by the company, a conveyance, transfer or other disposition of company property, the issue of shares by the company, or the incurring of liabilities by the company;
- The payment, disposition or issue is made to a director of the company, a close associate of a director of the company, or a person on behalf of, or for the benefit of, a director or close associate.

- A reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefits and detriments to the company in entering into the transaction and the respective benefits to other parties.

- The transaction was entered into or given effect to within four (4) years of the date of appointment of the Administrator.

A defence to a claim for an unreasonable director-related transaction is only available to a third party in the event a Liquidator sought recoveries from them. The third party is required to prove it received no benefit because of the transaction, or in relation to each benefit received, the third party received the benefit in good faith and, at the time the benefit was received, the third party had no reasonable grounds for suspecting that the Company was insolvent or would become insolvent, nor would a reasonable person in the third party's position have had grounds for suspecting the Company was insolvent or likely to become insolvent.

The provisions surrounding unreasonable director-related transactions are relatively recent and recovery action through a legal process is subject to interpretation of the legislative criteria that defines a transaction as an unreasonable director-related transaction. However, the greater statutory period available to a Liquidator and the absence of a requirement for the Liquidator to prove that the Company was insolvent at the time of the transaction presents this form of recovery as an attractive option to creditors.

Our investigations into the affairs of the Company over the six (6) financial years preceding our appointment (i.e. 1 July 2010 to 18 January 2016) indicate there have been significant transactions in value and in quantum entered into by QN that appear to be both director-related and uncommercial in nature.

In summary, our forensic investigation into potential unreasonable director-related transactions and/or uncommercial transactions revealed:

- Our analysis of the related party loans shows that from February 2011 approximately $224.3M of QN's funds were transferred to director-related parties, or paid by QN on behalf of the director-related parties (Refer to Section 6.6.4) The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries;

- Since 30 June 2012, over $189.3M of related party loan balances has been forgiven by QN for the benefit of the director-related parties (see Section 6.6.5);

- An additional $26M of QN's funds were transferred to other parties as donations to political parties and sponsorship fees, where it appears a Director may have received an indirect benefit from the transferred funds. These payments include the $21.5M donated to the Palmer United Party (see Section 6.6.14); and

- Our investigations have included an analysis of the security granted by QN to Waratah Coal and China First in the days leading up to our appointment. The Administrators are of the opinion that these claims will not be admitted as valid for voting at the Second Meeting of Creditors, and have been excluded from the Liquidation optimistic dividend scenario. (see Section 6.6.16).

A detailed discussion on the results of our forensic investigation into potential unreasonable director-related transactions is set out below.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any losses suffered by QN where it is commercial to do so. It is important to note any such recoveries may be limited to the losses suffered by QN as a result of only **one of the following:**

1. The funds transferred by QN to any one of related parties, or paid by QN on behalf of that related party; or

2. The amount of the loan forgiveness granted to any one of the related parties; or

3. The specific losses suffered by QN as a result of any one transaction.

The ability for a Liquidator to recover any of these transactions will be subject to the Court's interpretation of relevant legal issues, as well as determining the prospects of recovery from the parties whom may have benefited from the director-related transaction.

6.6.3 Overview of Related Party Loan Accounts

QN recorded all amounts paid to, or on behalf of, related parties in related party loan accounts in QN's management accounts. The structure of the related party loan accounts evolved from January 2011. At first only a Mineralogy loan account was used to record all related party transactions, but new loan accounts were added over the years. Accordingly, a transaction recorded in an entity's loan account does not necessarily mean that it was that entity which received the benefit. Our review of the supporting documents confirm the transactions included in our analysis were for the benefit of a director-related party, although any recoveries by a Liquidator may be from a different director-related party to which the loan was recorded.

At each financial year end, loan forgiveness transactions were recorded based on deeds of forgiveness and/or Section 245-90 Agreements (for compliance with the *Income Tax Assessment Act* 1997).

6.6.4 Related Party Loan Cash Movements

Our investigations have included a detailed analysis of all transactions made by QN between the period 1 July 2010 to 18 January 2016 that were recorded in the related party loan accounts, which we summarise below:

Table 13: Related Party Loan Accounts

Related Party	Payments made by QN ($)	Payments made by Related Party ($)	Movement of Assets ($)	Net Position ($)
Mineralogy	122,231,571	(16,139,899)	(4,609,700)	101,481,972
Palmer Leisure Coolum	58,926,892	0	0	58,926,892
Palmer Aviation	28,147,371	(2,083,732)	0	26,063,639
Blue Star Lines Pty Ltd	5,924,004	(47,894)	0	5,876,109
Ian Ferguson	500,000	0	0	500,000
Cart Provider	325,000	0	0	325,000
Australasian Resources Ltd	222,128	0	0	222,128
Total	**$ 224,376,966**	**$ (18,271,525)**	**$ (4,609,700)**	**$ 201,495,741**

The analysis summarised above incorporates:

- 'Payments made by QN': All cash transferred from QN to a director-related entity, together with all expenses paid by QN on behalf of a director-related entity;
- 'Payments made by a Related Party': All cash transferred to QN from a director-related entity, together with all expenses paid by the director-related entity on behalf of QN; and
- All movements of assets between QN and a director-related entity that were recorded in the related-party loan accounts.

Note that the value for the Mineralogy loan account includes $5M for the alleged transfer of the Cessna plane to Mr Palmer, which is being disputed by the Administrators. If the transfer is found to be void, then $5M would be excluded from the above analysis and Mineralogy's net position would decrease by $5M.

In addition, the following two (2) related party loan accounts showed a negative net position:

Table 14: Related Party Loan Accounts – Negative Net Cash Position

Related Party	Payments made by QN ($)	Payments made by Related Party ($)	Movement of Assets ($)	Net Position ($)
Clive Palmer	2,503,698	(38,069,871)	12,907,000	(22,659,174)
Palmer Leisure Australia	412,432	(14,748,306)		(14,335,874)
Total	**$ 2,916,130**	**$ (52,818,177)**	**$ 12,907,000**	**$ (36,995,058)**

An additional $40M was transferred to a QNI Resources subsidiary (Palmer Leisure Australia) as paid-up capital rather than as a loan, although this occurred outside the four (4) year statutory period. Palmer Leisure Australia was sold to Mr Palmer on 4 July 2012 for $8.4M.

It is our view these transactions have appropriated assets otherwise available to QN and its creditors for the benefit of director-related parties, and because of these transactions, caused detriment to QN.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.5 Loan Forgiveness

We have identified the following loan forgiveness transactions across the related party loan accounts:

Table 15: Loan Forgiveness Summary

Date	Net Value $ (AUD)
30 June 2012	298,600
1 July 2012	8,285,347
2 July 2012	26,815,997
30 Jun 2013	65,541,158
30 Jun 2014	31,003,809
30 Jun 2015	55,859,695
17 Jan 2016	1,500,000
Total Loan Forgiveness	$ 189,304,606

Of the $189M shown above, approximately $28M represents losses of related parties assumed by QN. Under the amended share sale agreements for the sale of Palmer Leisure Australia and Palmer Leisure Coolum to Mr Palmer, QNI

Resources and QNI Metals were required to "*pay all capital and operating expenses*" (while being entitled to all profits) in respect of these two (2) companies up to 30 June 2014.

The $1.5M loan forgiveness on 17 January 2016 recorded in the Palmer Leisure Coolum loan account was entered into the Company's accounting system on 8 February 2016 without the Administrators' authorisation. The Administrators have not been provided with supporting documents and consider this transaction to be invalid.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.6 Vintage Cars

Between August 2012 and June 2013, QNI Resources purchased 60 vintage cars from Australian and overseas dealers, which were then transported to the Palmer Coolum Resort to establish the 'Motorama Museum'. QN paid for the purchase of the vehicles through the QN bank account, recording the acquisition as a 'Major Capital Purchase' by QNI Resources.

The vintage cars were sold by QNI Resources as a whole to Mr Palmer on 3 February 2014 for $5M, a 17% premium over the original cost of the vehicles (before accounting for transport costs, taxes, custom levy etc). Neither QN nor QNI Resources received the $5M cash payment. However consideration received by QN for the sale was recorded by way of a transaction in the Mineralogy loan account. A loan forgiveness transaction for $5M was later recorded in the Mineralogy loan account on 30 June 2015.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.7 Avica Resort

On 30 April 2010, QN purchased the Avica Resort complex, located at Merrimac on the Gold Coast, for $11.55M (excluding GST). The Avica Resort is a 76 hectare property comprising of conference rooms, horse stables, tennis courts, a chapel, swimming pool area and 27 guest rooms. At the time of the purchase, QN's management indicated their intention to make the Avica Resort the QN's corporate headquarters.

On 1 November 2013, QN sold the Avica Resort to Mr Palmer for $7.9m. The price is supported by a valuation report commissioned by QN dated 13 December 2012, which valued the Avica Resort's land and buildings on an 'as is' basis.

Since acquiring the Avica Resort, Mr Palmer lodged on 15 May 2015 a request for preliminary approval to develop the Avica Resort land into "Green Heart Gardens" – a development for up to 5,000 residential dwellings.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.8 Cessna Aircraft

On 1 September 2011, QN paid a USD$250K deposit for a Cessna Citation X aircraft. The remainder of the purchase price (USD$4.55M) was paid by Palmer Leisure Australia on 18 October 2011, following QN's initial $40M capital contribution advance to Palmer Leisure Australia on 2 August 2011.

QN's records show that the Cessna was intended to be a QN asset, and QN paid aviation expenses relating to the Cessna.

On 6 July 2012, there was an alleged sale of the Cessna to Mr Palmer for $5M. Despite this, the registration of the Cessna was never transferred from QN, and QN continued to represent to third parties that it was the true owner of the Cessna.

QN did not receive the $5M in cash, however consideration received by QN for the sale was recorded by way of a transaction in the Mineralogy loan account (which was subsequently forgiven).

We have obtained legal advice in respect to QN's interests in the Cessna, and intend to make an application to the Court for a determination of QN's ownership or otherwise in the aircraft, and confirmation of our right to sell the aircraft as Administrators of QN.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.9 November 2012 Cash Transfers

On 29 November 2012, Mr Palmer instructed QN to transfer a total of $43M to a number of related entities:

Table 16 : Related Party Loan Accounts

Transfer To	Payment Amount	Net Position $ (AUD)
Clive Palmer	USD 15,000,000	14,380,213
SCI Le Coeur De L Ocean	USD 15,000,000	14,380,213
Alexandar Sokolov	USD 8,000,000	7,669,447
Zhenghong Zang	AUD 4,000,000	4,000,000
Bednova Evgenia	AUD 959,728	959,728
Mineralogy	AUD 550,000	550,000
Zhenghong Zang	AUD 500,000	500,000
Waratah Coal	AUD 200,000	200,000
Cold Mountain Stud Ltd	AUD 50,000	50,000
Total payments made		**$ 42,689,601**

These payments were recorded in the Mineralogy loan account and have been included in our analysis of the total payments made by QN.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.10 Palmer Leisure Coolum

Palmer Leisure Coolum operates the Palmer Coolum Resort on the Sunshine Coast QLD. The resort including the land was purchased by QN for $8.1M in July 2011, and then sold to Mr Palmer in July 2012 for $12M. The amended share sale agreement included a clause requiring QNI Resources and QNI Metals to "*pay all capital and operating expenses*" (while being entitled to all profits) in respect of Palmer Leisure Coolum up to 30 June 2014.

QN made payments to or on behalf of Palmer Leisure Coolum totalling over $58.9M in the period of review, including:

- $43.9M in cash transferred to Palmer Leisure Coolum for working capital contributions for the period to 30 June 2014, then $6.9M after that date;
- $5.9M in expenses paid by QN on behalf of Palmer Leisure Coolum for the period to 30 June 2014, then $880K after that date; and
- The purchase of quarter-share interests in villas at the resort for $1.2M.

These payments were recorded against a loan account in the name of Palmer Leisure Coolum, and were periodically either forgiven by QN or transferred to QN's own operational accounts to absorb as trading expenses.

The Palmer Coolum also hosts the vintage cars (held in the Palmer 'Motorama' motor museum).

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so. Further investigation will also be required to determine whether QN received fair consideration for the sale of its interests in the resort to Mr Palmer in July 2012.

6.6.11 Palmer Leisure Australia

Palmer Leisure Australia operates two golf courses in Robina QLD (Palmer Colonial and Palmer Gold Coast) and a golf course in Port Douglas Qld (Palmer Sea Reef).

On 2 August 2011, QN transferred $40M by way of an initial investment to Palmer Leisure Australia (then called QN Securities Pty Ltd). At the time Palmer Leisure Australia was owned by QNI Resources and QNI Metals (with the latter allegedly holding its 20% interest on behalf of QNI Resources).

In July 2012 Palmer Leisure Australia was sold to Mr Palmer for $8.4M. The amended share sale agreement included a clause requiring QNI Resources and QNI Metals to "*pay all capital and operating expenses*" (while being entitled to all profits) in respect of Palmer Leisure Australia up to 30 June 2014.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so. Further investigation will also be required to determine whether QN received fair consideration for the sale of its interests in Palmer Leisure Australia to Mr Palmer in July 2012.

6.6.12 Styx Basin Joint Venture

As discussed earlier in this Report, QN holds 80% interest in the Styx Basin Joint Venture, including EPC 1029 and all associated intellectual property and authorisations in connection with the operation of the tenement. QN's joint venture partner is Fairway Coal Pty Ltd, with interests of 20%.

On 3 January 2011, QN purchased 50% interests in the Styx Basin Joint Venture from Waratah Coal for consideration of $51.9M. QN purchased a further 30% interest on 2 July 2012 from Waratah Coal for $30M.

Further investigation is necessary to determine whether the consideration paid by QN for its interests was reasonable at the time, having regard for the Directors' personal positions within the related parties attached to the Styx Basin Joint Venture.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.13 Titanic II (Blue Star Lines)

Blue Star Lines Pty Ltd (Blue Star Lines) was incorporated in April 2012 for the purpose of building a replica of the Titanic. It is a subsidiary of Mineralogy.

On behalf of Blue Star Lines, QN incurred a total of $5.88M in expenses, including $1.9M in project management fees and over $3.3M in costs associated with marketing the venture through launch events in the UK and USA. The majority of transactions in the Blue Star Lines loan account were incurred prior to 30 April 2014; after that the main costs relate to rent for offsite storage and IT-related expenses.

Payments made by QN on behalf of Blue Star Lines were recorded in its own loan account, with loan forgiveness transactions recorded at the end of each financial year ends (FY2014 and FY2015).

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so. Political Donations

6.6.14 Political Donations

In May 2013, Mr Palmer lodged registration documents to establish the Palmer United Party (PUP), and the application was granted on 5 July 2013.

Since 2013, QN has made approximately $21.5M in contributions, made up of:

- Cash transfers to the PUP in August 2013, September 2013 and February 2014 totalling $5.8M. These funds were remitted to PUP by related party, Cosmo Developments, as directed and on behalf of QN;
- Total expenses incurred by QN on behalf of the PUP total $13.5M, covering advertising, DVD production, travel costs, and estimated allocations of QN employee and contractor costs; and
- Total aviation costs of $2.2M, largely representing costs incurred by QN specific to the PUP's use of a jet aircraft owned by a related party, Palmer Aviation Pty Ltd (In Liquidation).

The table below provides a summary of the donations to PUP by reporting period, taken from working papers for electoral commission submissions and QN's accounting records:

Table 17: Political Donations

Financial Year	Value $ (AUD)
FY2013	65,326
FY2014	15,247,522
FY2015	5,947,720
H1 FY2016 (Jul-15 to Dec-15)	288,515
H2 FY2016 (up to 18 Jan-16)	721
Total donations Palmer United Party	**$ 21,549,804**

During the course of our investigations, we have considered whether the quantum (in value) of the political donations made by QN were reasonable, having regard to the benefit of the donations to PUP and any detriment caused to QN because of the donations. It is appropriate to analyse whether the value of the donations made by QN are typical for a donor to an Australian political party, and further, whether the level of donations received by PUP were comparative to those received by other Australian political parties.

We have observed, in both FY2014 and FY2015, QN contributed over 27% of the nation's total donations to all Australian political parties as disclosed with the Australian Electoral Commission, including the two major parties. Further, QN contributed 58% and 61% of PUP's total donations in FY 2014 and FY2015 respectively, with PUP having received at least 45% of the nation's total donations in each of the same year. Included as Annexure 8 are graphs illustrating the quantum of donations made by QN compared to other political party donors.

It is our view the donations made by QN to PUP have appropriated assets otherwise available to QN and its creditors for the benefit of a director-related entities, and because of these transactions, caused detriment to QN.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.15 Sponsorships

QN was a frequent sponsor of local sporting and community organisations around Townsville and Queensland. However, our investigations have identified sponsorship costs paid by QN to two (2) entities that appear outside the Company's ordinary sponsorship practices.

From December 2012, QN provided a total of $4.5M in sponsorship fees to the Club de Madrid. We observed that:

- The Club de Madrid is a body of former heads of states which provide advice and assistance to current political leaders on a range of political issues;
- In late 2012, the Club de Madrid formed an alliance with a new body called the World Economic Council, which appears to have been created by Mr Palmer;
- At the time the alliance was formed, Mr Palmer was appointed as a joint secretary general of the alliance, Mr Mensink was appointed as Treasurer, and Mr Michael Palmer (Mr Palmer's son) was appointed as another 'trustee';
- On 7 and 8 December 2013, Palmer Coolum Resort hosted the Club de Madrid's annual conference;
- QN and Mineralogy's logos were included on the Club de Madrid's website as major sponsors, and both companies were also included as major sponsors to the 2013 annual conference (but not subsequent years); and
- The last payment (EUR€100K) was made by QN on 14 January 2016, four (4) days prior to the appointment of Administrators.

In February 2014 and February 2015, QN also provided a total of USD$200K in sponsorship fees to the John F Kennedy Library Foundation. We observed that:

- In 2012, Mr Palmer was listed as a member of the Board of Directors;
- Mr Palmer is currently listed on the Foundation's website as having provided annual support of $25K and above. QN is not listed as such; and
- The Foundation is based in the USA and supports a library and museum located in the USA, with a focus on political and public service subjects. The nature of the Foundation appears to be distinct from that of QN's business of operating the Refinery. Further, QN's main customers are not USA-based, nor are QN's main suppliers.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Subject to the availability of funding, should QN be placed into Liquidation, a Liquidator will consider the reasonableness of the sponsorships and the extent of the Directors' personal interest in their roles (if any) with the sponsorship parties, having regard for the Company's financial position at the time. Should it be determined the transactions are voidable, the Liquidators will pursue recovery of any loss suffered by QN where it is commercial to do so.

6.6.16 Waratah Coal and China First Securities

As part of our investigation, we also considered the Waratah Coal and China First securities granted by QN in favour of these two (2) entities on 13 January 2016 and obtained legal advice. The agreements surrounding the granting of security involved the following:

- QN, QNI Resources and QNI Metals forgives all loans to Mr Palmer-related entities up to 13 January 2016 (estimated to be $7.2M based on QN records);

- Waratah Coal allows QN to use certain mining tenements (EPC1040 and EPC1079) as security to obtain funding to support QN's operations;
- QN acquires 2 billion shares in China First (which would provide sufficient control over China First to remove a caveat placed by China First on the mining tenements);
- QN would pay $135M in two (2) equal instalments for the subscription of those shares (on or before 31 December 2017 and 2018); and
- Both Waratah Coal and China First lodged general security charges against QN securing the above liabilities ($100M and $135M respectively).

Both Waratah Coal and China First have lodged proofs of debt (as secured creditors) under the above security arrangements. The Administrators have considered these claims and obtained legal advice. The Administrators are of the opinion the claims lodged by Waratah Coal and China First are invalid for the purposes of voting at the Second Meeting of Creditors.

The claim by Waratah Coal relates to an agreement between Waratah Coal and QN to make Waratah Coal assets available to QN as security in the event it sought to obtain finance and/or secure an arrangement with key suppliers. No such security has been utilised by QN and therefore no liability exists between QN and Waratah Coal.

A Liquidator may be able to claim the circulating interest to be void under Section 588FJ of the Act, or the share purchase (and corresponding security) to be an uncommercial transaction or unreasonable director-related transaction on the basis that a reasonable person would not have entered into these transactions, having regard for the financial circumstances of QN at the time, and the detriment caused to QN in entering into these transactions.

The Administrators are currently in negotiations with these parties to have these securities released. A further update on this matter will be provided at the Second Meeting of Creditors.

6.6.17 Unfair loans

An unfair loan is a loan agreement where the interest or charges are considered to be extortionate. Unfair loans made to the Company any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed Liquidator, whether or not the Company was insolvent at any time after the loan was entered into.

From our investigations, we are not aware of any unfair loans entered into by the Company.

6.6.18 Insolvent trading

Under the Act, a director is personally liable to the company if the director fails to prevent a company from incurring a debt when, at the time of incurring that debt, the company is insolvent, or becomes insolvent by incurring the debt, and there existed reasonable grounds to suspect that the company was or would become insolvent. This claim must be proven by the Liquidator against each individual director. Creditors should be aware that a successful claim for insolvent trading requires extensive analysis and would generally require legal action. Further, we would point out to creditors that such proceedings may often be drawn out and involve significant cost. Creditors should also be aware that any successful claim may be set-off by the Director against amounts due to that individual by way of unsecured advances or loan account.

In this regard, we note that the Director, Mr Mensink, has lodged a Formal Proof of Debt form in the Administration in the amount of $277K in respect to outstanding employee entitlements only. Mr Palmer has lodged a proof of debt in the Administration in respect of loans made to the Company amounting to $2.6M.

The Act provides a number of possible defences to a Director to a claim for insolvent trading. These defences are:

- At the time the debt was incurred the Director had reasonable grounds to expect and did expect that the Company was solvent and would remain solvent if it incurred that debt and any other debts that it had incurred at that time.
- At the time the debt was incurred the Director had reasonable grounds to believe and did believe that a competent and reliable person was responsible for providing information about the Company's solvency and that person was fulfilling that responsibility.

- The Director through illness or some other good reason was not taking part in the management of the Company at the time the debt was incurred.
- The Director took all reasonable steps to prevent the Company from incurring the debt.

It is crucial to note that, with the exception of unfair loans and director related transactions, in order for a Liquidator to be able to set aside a transaction or obtain compensation from a director for insolvent trading, the Liquidator must first be able to show that at a relevant point in time the Company was insolvent.

The Act states the Company is considered to be solvent if, and only if, the Company is able to pay its debts as and when they become due and payable. A Company that is not solvent is insolvent. Accordingly, the test for insolvency is not a balance sheet test but rather a cash flow test.

6.6.19 Results of investigations

From our investigations it would appear the date of insolvency would be from at least 27 November 2015 (and possibly earlier), being the date QN's key logistics supplier, Aurizon Operation Limited (Aurizon), issued QN with a notice of default.

Our investigations into the date of insolvency reveal:

1. Analysis of the Company's aged payables reveals QN generally dealt with its creditors throughout the period July 2015 to October 2015 within credit terms, with 89% of creditor invoices being paid between 0-60 days from the date of the invoice, and 4% in arrears at 90 days and 6% at 120+ days (including those debts in dispute). During the month of November 2015, December 2015 and up to the date of our appointment, the Company push out payment of creditor invoices with debts at 90 days and 120+ days increasing to an average of 19% and 15% through this period.
2. Whilst the QN working capital ratios (current assets available to meet current liabilities) remained positive, they have declined from 1.98:1 for the financial year ending 30 June 2015 to 1.49:1 and 1.3:1 as at 30 September 2015 and 31 December 2015 respectively.
3. QN's earnings before interest, tax, depreciation and amortisation (EBITDA) is negative for each month from March 2015 to the date of our appointment, with varying fluctuations in margins. At worse, the management accounts reveal EBITDA margin of (72.02)% in August 2015, with an average of (34.64)% EBITDA margin across November 2015 and December 2015.
4. QN had sought short term overdraft facility from its banking institution of $25M in September 2015, with negotiations continuing until mid-October 2015;
5. In October 2015, QN had sought a line of credit in the amount of $25M from major logistics supplier, Aurizon, with the effect of deferring payment of outstanding debts incurred between July 2015 and November 2015, totalling $15.8M to monthly payments until April 2016. Negotiations for a revised payment plan were subject to QN agreeing to additional conditions to and extension of the transport services contracts;
6. In or about October 2015, QN records indicate that steps were taken to address creditor requests for payment of overdue invoices;
7. Negotiations with Aurizon fell over on 27 November 2015 after QN disputed the terms of the agreement and Aurizon issued a notice of default by non-payment under the service contract for the amount of $11.9M; and
8. QN continued in its attempts to negotiate terms for deferred payment of existing arrears, and to obtain short-term funding with Aurizon throughout November 2015 to January 2016. However it was apparent QN was unable to satisfy the conditions precedent set by Aurizon to secure any such agreement.

At all material times, QN continued in its practice of providing financial support to its related parties by way of provision of working capital and payment of related party expenses throughout 2015, and up to the week prior to the appointment of Administrators.

Our investigations into the affairs of QN indicate the Company had additional funding available from related parties. Investigations reveal $2.7M in cash was provided to QN in October and November of 2015, including $2.6M on 13 November 2015 to enable QN to meet payment of wages. Whilst the funding utilised is not substantial (relevant to its debts at the time), it demonstrates QN had funding available to prevent it from trading whilst insolvent, at least in the short term. It is difficult to conclude whether the related parties had capacity to provide further funding, or in fact if there was any refusal by the related parties to provide further funding to QN.

To date, our investigations have not identified any communication of such a refusal. Having regard for the position of the Director and Shadow/De Facto Director in each of the related entities, it is unlikely there will be any documented evidence of any requests by QN for funding, nor such a request being formally considered by a related party and/ or any decisions made. From the historical conduct of Directors, the majority of key management meetings were held in person.

The critical event which has driven the determination of the date of insolvency is the date Aurizon withdrew from the negotiated arrangements and issued a demand for payment of the total debt of $11.9M, being 27 November 2015.

Pursuant to the Act, the Directors may be personally liable to QN for the debts incurred by QN after this point in time. Based on the Proofs of Debt lodged by creditors to date (and detailed in the below table), it appears QN incurred further debts totalling approximately $771M after the date of insolvency, including debts totalling $308M to QNI Metals and QNI Resources (which the Administrators dispute), and the China First and Waratah Coal securities totalling $235M.

Table 18: Debts Incurred Since 27 November 2015

Description	Amount ($)
Employees	73,903,269
Unsecured Creditors	151,241,617
Related Party Creditors	546,016,516
Total	$ 771,164,902

Any claim for insolvent trading against the Directors of the Company, however, would need to be assessed on commercial grounds, including:

- Likelihood that pursuing a claim of insolvent trading would be successful, taking into account the defences available to Directors;
- Cost of litigation; and
- Likelihood of recovery against the Directors of the Company.

From our investigations, it appears the Directors may have assets of substance that may be recovered if an insolvent trading claim was successfully pursued. See details of the Directors' position in Section 6.7 below.

As stated earlier, the Act provides Directors with a number of defences to a claim for insolvent trading. We are unable to comment, at this stage, as to whether they would have any defences.

6.6.20 Costs

The costs of pursuing voidable transactions and insolvent trading would come from the assets of QN or funding from creditors of QN. Alternatively, the Liquidators could seek litigation insurance funding or funding from ASIC or FEG.

6.7 Director's Personal Financial Position

In determining the likely recoveries from the Directors, we must establish the Directors' capacity to pay any judgement claim. We have made enquiries on the personal financial position of Mr Mensink to determine the likely recoveries if an insolvent trading claim were successfully pursued. To date, Mr Mensink has not provided this information.

The below searches have been conducted on Mr Palmer and Mr Mensink from publicly available databases.

6.7.1 ASIC Searches

Included as Annexure 9 and 10 is a summary of positions held by Mr Mensink and Mr Palmer with other companies within the last five (5) years. This information has been obtained from searches conducted on the ASIC database.

6.7.2 Motor Vehicle Searches

Due to privacy restrictions, we have been unable to conduct personal name searches of the Directors with Queensland Transport in relation to any vehicles which may be owned by them.

6.7.3 Real Property Searches

Publicly available searches were undertaken to determine if Mr Mensink and Mr Palmer are the registered owners of any real property. The findings from our searches are detailed as Annexure 11 and 12.

6.7.4 Personal Guarantee Claims

Our investigations to date have not revealed the existence of any personal guarantee claims.

6.8 Limitation of investigations

The opinion outlined above is based on investigations undertaken by our office into the Company's affairs, business and financial position. Our investigations have been based on the following information:

- Representations of the Director, senior management and key employees of the Company;
- The details of the Company's assets and liabilities as established by our office; and
- The books and records of the Company made available to us, which have been written up to record transactions of the Company to 18 January 2016.

6.9 Offences in relation to the Company – Section 438D

As outlined in Section 6.4 above, we have identified a number of offences in relation to the Company that may have been committed by the Directors of the Company. In particular, our investigations indicate persons, who have taken part in the formation or management of the Company, may have misapplied money or property of the Company. Further, we are aware of persons whom may have been guilty of negligence, breach of duty or trust of the Company. Accordingly, we have commenced preparation of a report to ASIC under Section 438D of the Act and will attend to lodgement of same as soon as practicable.

7. Alternatives available to Creditors

7.1 Explanation of alternatives available to Creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts and must also ensure that those creditors who have an ongoing relationship with QN are comfortable in their dealings with QN.

We make the following general comments in respect to each option:

7.1.1 Deed of Company Arrangement

We have not received a proposal for a DOCA.

7.1.2 Bringing the Administration to an End

It is possible that creditors may consider ending the Administration and returning QN to the existing Director. This is not a commercial proposition at this stage given the financial position of QN and the professional assistance it requires to trade out of its difficulties. This will not prevent creditors from initiating legal proceedings for the recovery of their debts or petitioning to the Court to have QN wound up at their own expense.

Should creditors resolve that the Administration be terminated, QN will be placed in a similar position to that existing prior to our appointment as Administrators (noting that QN is no longer the operator of the refinery).

7.1.3 Winding up the Company

At the Second Meeting of Creditors, creditors may resolve that the Company be wound up. Should they do so, the Company will be placed into liquidation and the Company is taken to have nominated us as the Administrators to be the Liquidators. The Liquidators are required to realise and distribute the assets in accordance with Section 556 of the Act (subject to Section 545 of the Act) and will also be required to complete a thorough investigation into the Company's past dealings and affairs, and the past actions of the Director.

The effects of the Liquidation of QN include:

1. the moratorium available under the Voluntary Administration process will cease;
2. the Liquidators will be empowered to recover potential voidable transactions, as outlined in Section 6.6 of this report
3. the Liquidators will be required to conduct an investigation into the affairs of the Company pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

It is clear at this stage that the Company has a deficiency of assets to liabilities and further that it is insolvent, in that it cannot meet its debts as and when they fall due. In our view, the winding up of the Company appears to be the most viable option for creditors in that the Liquidators will be in a position to wind up the affairs of the Company and realise the Company's remaining assets for the benefit of creditors.

This option allows the following areas to be investigated more thoroughly:

7.1.4 Investigation of voidable transactions and insolvent trading

If the Company is placed into Liquidation, further investigation of the matters referred to earlier in this report would be undertaken to determine the potential of any recoveries.

7.1.5 Director Guarantees

While we are not aware of any personal guarantees signed by the Director, if QN is wound up, creditors with guarantees from the Director could pursue for those debts immediately.

7.2 Recommendation

It is our opinion that it would be in creditor's interests for the Company to be wound up. It is not in creditors interests to bring the Administration to an end.

7.3 Reasons for Recommendation

The reasons for our recommendation are as follows:

1. The Company is insolvent;
2. No proposal for a DOCA has been received; and
3. Placing the Company into Liquidation enables the Liquidators to conduct further investigations into voidable transactions as discussed in Section 6 of this report.

7.4 Financial Analysis of Alternatives

A summary of the Liquidation pessimistic and optimistic alternatives, detailing the potential return to creditors is provided below.

Table 19: Estimated Statement of Position

Description	Notes	Liquidation	
		Optimistic	Pessimistic
Assets			
Cash at Bank	1	6,862,746	6,862,746
Term Deposit Funds	2	7,748,500	0
Trade Debtors	3	3,906,207	3,124,966
Stock	4	1,400,000	0
Shares and Tenements	5	Unknown	0
Related Party Debtors	6	2,140,324	428,065
Current Legal Actions	7	Unknown	0
Joint Venture Call Notices	8	190,084,446	0
Voidable Transactions	9	Unknown	0
Insolvent Trading Action	10	Unknown	0
Administrators Indemnity Against Joint Venture Owners	11	6,538,252	15,491,694
Total Assets		218,680,475	25,907,471
Less: Administration Liabilities			
Administrators' Trading Liabilities	12	12,638,425	20,810,626
Administrators' Remuneration & Disbursements	13	4,668,780	4,668,780
Liquidators' Remuneration & Disbursements - Estimated	13	4,920,000	5,250,000
Legal Costs	14	400,000	800,000
Total Liabilities		22,627,205	31,529,406
Available Funds to Distribute to Priority Creditors		196,053,270	Nil
Priority Claims			
Wages & Superannuation (ATO)	15	1,303,396	1,303,396
Third Party Deductions/Salary Sacrifice	15	176,920	176,920
Leave Entitlements (Annual, Long Service, Sick)	15	14,676,879	14,676,879
Payment in Lieu of Notice & Redundancy	15	57,746,074	57,746,074
Total Priority Creditor Claims		73,903,269	73,903,269
Available Funds to Distribute to Unsecured Creditors		122,150,001	Nil
Unsecured Creditors			
Unsecured Creditors	16	216,088,292	216,088,292
Related Party Claims	17	2,977,621	446,019,190
Contingent Legal Claims	7	14,465,894	Unknown
Total Unsecured Claims		233,531,807	662,107,482
Dividend Rate to Unsecured Creditors (cents in the $)		52.31	Nil

Note 1: Cash at Bank

Upon appointment, the Administrators took control of QN's bank accounts, which were held with National Australia Bank Limited and Suncorp Metway Limited. It is anticipated that any funds received during the Administration period will be used to pay the Administrators trading liabilities. There is unlikely to be any surplus cash available after the payment of all trading liabilities. The cash balances held by the Administrators as at 1 April 2016 were USD$2.09M and AUD$5.38M. Adopting a foreign exchange conversion rate of $0.71 USD/AUD, the Administrators bank balance totalled AUD$6.86M.

Note 2: Term Deposit Funds

Upon appointment, QN held seven (7) separate AUD and USD term deposits totalling AUD$10.09M and USD$1.35M. Upon further review, it appears that these deposits are held as security for bank guarantees, standby letters of credit issued and other potential liabilities. Some parties have already called upon the bank guarantees. The Administrators are making enquiries with respect to all term deposits still held and are attempting to recover available funds. AUD$3.3M was already recovered from these term deposits and the Administrators estimate collecting a further USD$714K and AUD$275K shortly. Adopting a foreign exchange conversion rate of $0.71 USD/AUD, the potential term deposit total recovery totals AUD$7.75M.

The Administrators and Liquidators (if appointed) will continue to liaise with the relevant parties to seek the recovery of the term deposits.

Note 3: Trade Debtors

As of 31 December 2015, QN records disclosed total debtors of AUD$15.71M (before estimated Quotation Period (QP) and FX adjustments totalling AUD$5.73M). Adjustments are based on the nickel price two (2) months later.

With the exception of minimal amounts, the balance of these debtors were recovered during our appointment.

Approximately AUD$80K and USD$27.6M of invoices were raised during our appointment period. As at 1 April 2016, invoices totalling USD$5.93M remain unpaid. Additional invoices (including those relating to QP adjustments) will be prepared and it's estimated these additional invoices will total USD$188K.

Optimistically, the Administrators expect to collect 90% of this amount, however due to the unpredictability of the future nickel price (on which the final invoices and QP adjustments are calculated), the Administrators have adopted a pessimistic collection of 80%. Adopting a foreign exchange conversion rate of $0.71 USD/AUD, the debtors to be collected, optimistically total AUD$3.9M and pessimistically $3.12M.

Note 4: Stock

Records reveal total stock on hand at 31 December 2015 to be as follows:

Table 20: Stock on Hand

Description	Amount ($)
Yabulu Ore Stock	15.25M
Finished Goods	10.31M
Raw Materials and Consumables	47.75M
Total	$ 73.31M

The Ore Stock was consumed during production both before and after our appointment date. There was approximately AUD$1.4M in finished stock on hand as of 7 March 2016, with the rest having been sold to customers. The ownership of this finished stock and raw materials and consumables is disputed by the Administrators and the Joint Venture parties.

Note 5: Shares and Tenements

China First Shares

Prior to our appointment, QN entered into an agreement to purchase 2 billion ordinary shares in China First for $135M, payable in two (2) equal instalments on 31 December 2017 and 31 December 2018. These shares were granted to QN.

In our capacity as shareholder, we have corresponded with China First requesting information pertaining to its financial position and performance to enable us to determine the estimated realisable value of the shareholding. We are currently awaiting receipt of the requested documentation.

Until such information becomes available, the estimated realisable value of the shares is unknown.

Interests in Styx Basin Joint Venture

As at the date of our appointment, QN holds 80% interest in the Styx Basin Joint Venture, including EPC 1029 and all associated intellectual property and authorisations in connection with the operation of the tenement. QN's joint venture partner is Fairway Coal Pty Ltd, who holds a 20% interest.

Our investigations to date suggest the joint venture does not hold any material assets, nor does it generate any income at this stage. As such, QN's interests in the joint venture have limited realisable value, if any.

The Joint Venture parties assert that QN holds no assets or interests, in its own right, and that any interests or assets held, are for (and on behalf of) the Joint Venture Owners. The Administrators are of the opinion that QN has an apparent or prima facie right to sell assets and/or interests it holds. The basis for the apparent or prima facie right is that QN appears to have incurred significant liabilities managing the assets of the Joint Venture as a trustee for the Joint Venture parties which would give rise to a trustee's right to be indemnified from the trust assets for its expenses and liabilities. A trustee's right to be indemnified from trust assets is not a mere security right and has priority over the rights of beneficiaries.

Note 6: Related Party Debtors

As at the date of our appointment, QN records indicate there are outstanding related party loan accounts in favour of QN. A summary of these loans are as follows:

Table 21: Related Party Claims

Related Party	Amount ($)
Australasian Resources Ltd	1,060,981
Blue Star Line Pty Ltd	16,951
Ian Ferguson	500,000
Mineralogy Pty Ltd	1,170,133
Palmer Aviation	3,010,085
Palmer Coolum Resort	1,500,000
Palmer United Party	32,581
Total	$ 7,290,731

The Administrators have undertaken comprehensive steps to verify the status of these loan accounts.

Palmer Aviation is in liquidation and a dividend to any class of creditor is unlikely. As such, this loan is not recoverable.

The remaining loan balances total $4.28M. These loans are each an asset available in the Administration and will be pursued by the Administrators and Liquidators (if appointed).

At this stage, it is difficult to determine the prospects of recovery, having regard to anticipated disputes over the intended nature of the loans and the unknown capacity of the related parties to repay these loans. Accordingly, we anticipate recovery of between 10% and 50%, being $428K in the pessimistic scenario and $2.14M in the optimistic scenario.

Note 7: Current Legal Actions

As at the date of our appointment, QN was a party to ten (10) Court proceedings. Eight (8) of the proceedings were commenced by QN, with three (3) of those proceedings being subject to a Counterclaim filed against QN.

The proceedings are summarised in Annexure 13.

Pursuant to Section 440D of the Act, '*a proceeding in a court against the company or in relation to any of its property cannot be begun or proceeded with, except with the administrator's written consent; or with the leave of the Court*'. Accordingly, two (2) of these proceedings are stayed.

Accordingly, having regard for the counterclaims filed against QN, three (3) of these proceedings are stayed.

In the event QN is placed into Liquidation, these same proceedings are stayed pursuant to Section 471B of the Act, except with leave of Court.

The remaining proceedings are still active despite the Administration of QN. As such, it has been necessary to engage legal representation to attend to these proceedings, where required, in order to preserve the interests of QN in same until such time as the Administrators (or Liquidators) can assess the merits of each of these proceedings, and determine the appropriate course of action for the benefit of creditors.

There is a contingent claim against QN following an order by the Court to pay costs in legal proceedings commenced by QN. The cost are estimated to total approximately $491,638.06, however are yet to be assessed.

Should QN be placed into Liquidation, we will assess the merits of each individual proceeding and continue with the relevant proceeding, if it is in creditors' interests and commercial to do so.

Note 8: Joint Venture Call Notices

As detailed in Section 4.11, the Administrators have issued two (2) Call Notices to the other Joint Venture partners, being QNI Resources and QNI Metals. QN has the ability to issue such Call Notices on these parties for costs, liabilities and expenses of the Joint Venture which are properly incurred. The Administrators believe the Joint Venturers should be called upon to satisfy those outstanding liabilities, incurred on behalf of the Joint Venture prior to the appointment of the Administrators.

The two (2) Call Notices total $73.9M and $116.18M and are in relation to the employee entitlements owing as at 18 January 2016 and the unsecured claims known (excluding contingent liabilities) as at 6 April 2016.

If payment of these Call Notices is not made, the Administrators have the ability to appoint a Liquidator to these entities. The Administrators believe that these entities have sufficient assets to satisfy these claims, however these recoveries would be subject to a liquidation process.

It is likely that QNI Metals and QNI Resources will dispute these Call Notices, therefore the Administrators have pessimistically estimated that Nil recoveries will be made should these entities be successful in defending these claims.

Note 9: Voidable Transactions

As set out in Section 6.6 of this report, there are various potential recovery actions available should QN be placed into Liquidation.

Our investigations have revealed that certain preferential payments may have been made to creditors under the provisions of Section 588FA of the Act. A Liquidator will pursue recovery of these payments where it is commercial to do so. Further details are available in Section 6.6.1 of this report.

Our investigations indicate there have been significant transactions in value and in quantum entered into by QN that are both director-related and uncommercial in nature. Should QN be placed into Liquidation, a Liquidator will pursue recovery of any loss suffered by QN where it is commercial to do so. Further details are available in Section 6.6.2 of this Report.

Note 10: Insolvent Trading Action

As detailed in Section 6.6.18 of this Report, it would appear the date of insolvency would be from at least 27 November 2015, being the date QN's key logistics supplier, Aurizon issued QN with a notice of default.

Our investigations indicate the Directors may have assets available to meet an insolvent trading claim if one was successfully pursued. Please refer to Section 6.7 for further details.

Note 11: Administrators Indemnity Against Joint Venture Owners

The Administrators, through the use of the securities provided by QNI Resources and QNI Metals, have an indemnity for the shortfall of Administration liabilities including remuneration and disbursements (once all cash and trade debtors have been applied).

Note 12: Administrators' Trading Loss

As at 1 April 2016, the Administrators have calculated that approximately $12.6M in trading liabilities remain outstanding. These liabilities relate to:

- ATO liabilities (GST & PAYG)
- Purchase of Ore, residual QP adjustments and associated expenses
- Employee entitlement expenses incurred
- Various trading and consultant liabilities

Due to the uncertainty in being able to finalise the ore purchase price and various trading and consultant liabilities, the Administrators estimate that these liabilities may pessimistically increase up to $20.8M.

Note 13: Remuneration and Disbursements

Pursuant to Section 556 of the Act, the Administrators' remuneration and disbursements are paid in priority to employees and unsecured creditors' claims. We advise that our firm charges professional fees on the basis of time spent by the principal appointees and their staff at the Guide to Hourly Rates issued by FTI Consulting and attached Schedule 1 of our Remuneration Report. The costs will vary depending on the work required to be performed in respect of issues arising from the Administration. Due to efficiencies in processing, staff and operations, we will endeavour to apply our time efficiently and to limit our overall time costs.

For further details in respect to these costs, refer to Section 10 of this report.

A summary of the Administrators' Remuneration and Disbursements is provided below:

Table 22: Administrators' Remuneration and Disbursements

Description	Period	Amount ($)
Remuneration – Actual	18 February 2016 to 27 March 2016	2,973,772
Disbursements – Actual	18 February 2016 to 27 March 2016	130,008
Remuneration – Estimated	28 March 2016 to 22 April 2016	1,500,000
Disbursements – Estimated	28 March 2016 to 22 April 2016	65,000
Total		4,668,780

If a Liquidator is appointed, it is estimated that they could incur the below remuneration in pursuing voidable transactions and claims discussed in this report.

Table 23: Liquidators' Remuneration and Disbursements

Description	Period	Amount ($)
Remuneration – Estimated	23 April 2016 to Finalisation of Liquidation	5,000,000
Disbursements – Estimated	23 April 2016 to Finalisation of Liquidation	250,000
Total		5,250,000

A Liquidator's remuneration is subject to approval of creditors (or a Committee of Inspection if appointed). It should be noted that the above amounts are estimated based on the likely tasks to be undertaken in pursuing the matters raised in this report.

Note 14: Legal Expenses

Legal expenses have been and will be incurred by the Administrators and Liquidators (if appointed) in attending to any action required in respect to the trading aspects of the appointment, including matters surrounding the Joint Venture Agreement; employment related matters, pre-existing legal actions, investigating and pursuing any preference recoveries, uncommercial transaction or insolvent trading claims (if identified by a Liquidator). Given the different potential legal actions available, legal fees are estimated to be in the vicinity of $400K to $800K. These estimates are expected to increase in the event any of the above matters result in formal proceedings being commenced.

Note 15: Priority Creditors – Employees

Pursuant to Section 556 of the Act, employees receive a priority for payment of their entitlements in full, prior to any distribution to unsecured creditors. Excluded employees defined in accordance with Section 556 of the Act being an officer of the company or their relative are only entitled to receive, as a priority, $2K for outstanding wages and superannuation and $1.5K for outstanding leave entitlements.

Employees of QN other than excluded employees may be entitled to lodge a claim for outstanding wages, annual leave, long service leave, payment in lieu of notice and redundancy with the Commonwealth Government Fair Entitlements Guarantee Scheme once QN is placed into liquidation.

For further details, please refer to Section 8 of this Report.

Note 16: Unsecured Creditors

Formal Proof of Debts which we have received to date, indicate $216.08M is owing to unsecured creditors. This figure is likely to change as we receive further proofs of debt forms from creditors. Should recoveries be made from Liquidators' preference investigations, the optimistic total unsecured creditor's claims will increase by the amount of recovery made.

All Proof of Debt forms received have not yet been adjudicated on. Unsecured claims will only be adjudicated on if sufficient recoveries are made to enable a dividend to unsecured creditors. Please note that all claims lodged have been reviewed for meeting and voting purposes only.

Note 17: Related Parties

As detailed in Section 5.4 above, claims by related parties totalling $546M have been lodged in the Administration.

As discussed in Section 6.6.2 above, the claim made by Waratah Coal and China First have been considered and we have sought legal advice. The Administrators are of the opinion the claims will not be admitted as valid for voting at the Second Meeting of Creditors, and have been excluded from the Liquidation optimistic dividend calculation.

Other related party claims, excluding Cart Provider ($41k), Mr Palmer ($2.66M) and Mr Mensink ($277k), have been excluded for the optimistic dividend calculation as they potentially are voidable by a Liquidator. Pessimistically, the related party claims total $446.02M, all of which rank as unsecured claims against QN.

8. Fair Entitlements Guarantee Scheme

Employees of the Company, other than the Director or their related persons, have a statutory priority of payment in respect of outstanding entitlements owed at the date of our appointment including unpaid wages, annual leave, long service leave, redundancy, payment in lieu of notice (PILN) and superannuation. Employees may be entitled to lodge a claim for outstanding entitlements with the Commonwealth Government's Fair Entitlements Guarantee Scheme (FEG) if QN is placed into Liquidation.

FEG is a safety net scheme operated by the Commonwealth Government for employees of insolvent entities that have been placed into Liquidation. Under the scheme, former employees may be able to claim for amounts owing at 18 January 2016. FEG assesses claims in conjunction with information obtained from the records of the Company which are provided to them by a Liquidator. Subject to the approval of claims, FEG will then transfer the amount which the claimant is entitled to the Liquidator. Upon receipt of those monies the Liquidator will distribute the funds net of tax.

The Administrators approached the Department on 11 March 2016 and requested the Minister exercise the required discretion to make a declaration pursuant to Section 49 of the *Fair Entitlements Guarantee Act 2012*, which applies as if the Company was in Liquidation. The exercising of this discretion was requested in order to ease the significant financial impact on the 792 employees, who were retrenched by the Company. The Administrators have yet to receive a formal response from the Minister.

<u>Priority Creditors (being former Employees) can only submit a claim with FEG once the Company is placed into Liquidation.</u>

Please note FEG will only assess claims in relation to unpaid wages, annual leave, long service leave, redundancy and payment in lieu of notice. Any entitlements not eligible through FEG including superannuation still have a statutory priority over and above other unsecured creditors in accordance with Section 556 of the Act and will be dealt with in the general course of the Liquidation.

Employees may be able to claim the following:

- Unpaid wages – up to 13 weeks;
- Unpaid annual leave and long service leave;
- Payment in lieu of notice – up to five (5) weeks; and
- Redundancy pay – up to four (4) weeks per full year of service.

Employees may be eligible for FEG assistance if:

- An effective claim has been lodged within 12 months (of the later of the date employees lost their job or the date of the Liquidation of the former employer);
- Employees lost their job due to, or less than six (6) months before the employer's Liquidation; and
- Employees were an Australian citizen or the holder of a permanent visa or special category visa that allows for them to stay and work in Australia at the time the employment ended.

Employees will not be eligible if:

- They were a contractor;
- They were a Director of the Company and their relatives, or a relative of a Director of the Company within 12 months before Liquidation; and
- They do not meet all of the conditions of eligibility set out in the Fair Entitlements Guarantee Act 2012.

Please note the Administrators will be providing FEG with detailed calculations of all outstanding entitlements owed to former employees. This will be done prior to the potential Liquidation of the Company in an effort to ensure the efficient and timely review and payment of claims.

We also approached the Department of Employment and requested permission to provide them with all employee contracts and payslips up front and in bulk for each individual employee, rather than former employee's submitting individual requests to the Administrator and providing the documentation to the Department themselves. The Department has since confirmed if the FEG requirements are activated, the Department will approach the appointed Liquidator to verify from Company books and records the amount of employment entitlements owed. Despite this, all employees will still be required to lodge a claim with FEG; this generally requires employee's to provide documentary evidence of their residency or citizenship with their completed claim form. The easiest way to apply is through the online claim lodgement at https://extranet.employment.gov.au/feg, where document scans can be uploaded with the claim.

For further information please visit the FEG Fact Sheet on how to apply for FEG assistance:
https://docs.employment.gov.au/system/files/doc/other/how_do_i_apply_for_feg_assistance_fact_sheet_march_2016.pdf.

9. Estimated Return to Creditors

As detailed above, the estimated return to priority creditors ranges from 100 cents in the dollar to no return. A return to unsecured creditors ranges from 52.31 cents in the dollar to no return. The quantum of any return to creditors is highly dependent on the recoveries available to and made by a Liquidator.

Should sufficient recoveries be made to enable a return to creditors, it is anticipated a dividend could be declared by July 2017 (noting that this timing does not relate to Employees receiving their distribution from FEG). Creditors will be notified if sufficient realisations have been made to enable a dividend distribution.

10. Remuneration of Administrators

Please refer to the ***attached** Remuneration Request Approval Report.

The Committee of Creditors have previously approved the following remuneration of the Administrators:

Table 24: Remuneration Approved to Date

Period	**Amount ($) (exclusive of GST)**
18 January 2016 to 21 February 2016	1,629,266.50
22 February 2016 to 27 March 2015	1,344,505.00
Total	$ 2,973,771.50

The Administrators will request that the Committee elected at the Second Meeting of Creditors review and approve the Liquidator's (whichever option is voted on at the Second Meeting of Creditors) future remuneration.

11. Further information

Should you have any queries in this matter, please contact this office on either (07) 3225 4900 or at:

Employees: QNEmployees@fticonsulting.com
Creditors: QNCreditors@fticonsulting.com
General: Qldnickel@fticonsulting.com

Dated this 11th day of April 2016

Yours faithfully
FTI Consulting

John Park
Administrator

*Encl.

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Annexure 1 – Glossary of Terms

Table 25: Glossary of Terms

Abbreviation	Definition
Act	Corporations Act 2001 (Cth)
Administrators	John Park, Kelly-Anne Trenfield, Stefan Dopking and Quentin Olde
Appointment Date	18 January 2016
ARITA Code	The Code of Professional Practice of the Australian Restructuring Insolvency and Turnaround Association
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUD$	Australian Dollar
Aurizon	Aurizon Operations Limited (ACN 124 649 967)
Blue Star Lines	Blue Star Lines Pty Ltd (ACN 157 862 247)
Cart Provider	Cart Provider Pty Ltd (ACN 119 455 837)
Committee of Creditors	A small group of creditors, or their representatives, often appointed by the creditors of a company at the first meeting in a voluntary administration. The committee's role is to consult with the voluntary administrator and to receive and consider reports by the voluntary administrator. The committee may be called upon to approve the voluntary administrator's fees. The voluntary administrator must report to the committee when it reasonably requires.
Committee of Inspection	A small group of creditors and shareholders, or their representatives, often appointed by the creditors and shareholders of a company in liquidation to assist the liquidator. The committee is often called on to approve the liquidator's fees and sometimes to approve the compromise of debts or the entry into contracts extending beyond three months by the liquidator.
Company	Queensland Nickel Pty Ltd (ACN 009 842 068)
Creditors	Creditors of the Company who have a claim admissible to proof in the DOCA or Liquidation of the Company
Deed Administrator	The external administrator appointed to oversee a deed of company arrangement.
Deed of Company Arrangement (DOCA)	A binding arrangement between a company and its creditors governing how the company's affairs will be dealt with, which may be agreed to as a result of the company entering voluntary administration. Aims to maximise the chances of the company, or as much as possible of its business, continuing, or to provide a better return for creditors than an immediate winding up of the company, or both.
Director	Mr Clive Mensink

Table 25: Glossary of Terms

Abbreviation	Definition
Declaration of Independence, Relevant Relationships and Indemnities (DIRRI)	Declaration of Independence, Relevant Relationships and Indemnities prepared in accordance with Section 436DA of the Act. A declaration that must be provided by a voluntary administrator informing creditors about certain relationships and indemnities provided (if any). The declaration provides information to enable creditors to make an informed decision about whether they wish to replace the administrator over concerns about independence.
Eligible employee creditor	A creditor (including the Australian Taxation Office in respect of the superannuation guarantee charge) who, in a winding up of a company, would normally be paid their employment-related entitlements in priority to other unsecured debts. These creditors are given a special right to vote on a deed of company arrangement proposal that seeks to modify their priority.
Employees	The Employees of the Company as at the Appointment Date
Excluded employee	An employee who has also been a director of the company, or a relative of a director, at any time in the 12 months before the appointment of an external administrator. Excluded employees are entitled to only limited priority for repayment of their outstanding entitlements.
FEG	Fair Entitlements Guarantee Scheme
First Meeting of Creditors	The First Meeting of Creditors convened in accordance with Section 436E of the Act
FTI Consulting	FTI Consulting (Australia) Pty Ltd
FY**	Financial Year ended 30 June 20**
GST	Goods and Services Tax
HICB	Queensland Hazardous Industries and Chemicals Branch
Insolvent	Unable to pay all debts when they fall due for payment
IPA	Insolvency Practitioners Association of Australia
Joint Venture Group	The Joint Venture Group consists of QNI Metals Pty Ltd, QNI Resources Pty Ltd and Queensland Nickel Pty Ltd
Liquidation	The orderly winding up of a company's affairs. It involves realising the company's assets, cessation or sale of its operations, distributing the proceeds of realisation among its creditors and distributing any surplus among its shareholders.
Liquidator	A natural person appointed to administer the liquidation of a company.
London Metal Exchange (LME)	The London Metal Exchange is the world centre for industrial metals trading
Mamelon Property	The Mamelon Marlborough property is 6,266 hectare property located 115km north west of Rockhampton, Queensland and is primarily used as a beef

Table 25: Glossary of Terms

Abbreviation	Definition
	grazing property. The property is registered to QNI Metals Pty Ltd.
MHF	Major Hazards Facility
Mineralogy	Mineralogy Pty Ltd (ACN 010 582 680)
NHC	Intermediate Nickel Product
Officer (of a company)	A director, secretary or external administrator (in most cases) of the company.
Palmer Leisure Australia	Palmer Leisure Australia Pty Ltd (ACN 152 386 617)
Palmer Leisure Coolum	Palmer Leisure Coolum Pty Ltd (CAN 146 828 122). Palmer Leisure Coolum operates the Palmer Coolum Resort on the Sunshine Coast QLD
Palmer United Party	Palmer United Political Party
Person	A natural person or a company.
Philippines	Republic of the Philippines
PNG	Papua New Guinea
PPSA	Personal Property Securities Act 2009 (Cth)
PPSR	Personal Property Securities Register being the register recording security interests established under the PPSA
Priorities	The order set down by the Corporations Act 2001 for the payment of unsecured creditors of an insolvent company by an external administrator.
Priority Creditors	An unsecured creditor entitled to be paid ahead of other creditors (e.g. employees).
Proof of debt	A prescribed form to be completed by creditors at the Administrators' request, setting out details of their claim against the company, including how the debt arose and the amount claimed.
Proxy	A person appointed by another person to represent them at a meeting. A proxy is usually entitled to attend and vote on behalf of the person who appointed them. In an external administration, the appointer is usually a creditor or shareholder.
QN	Queensland Nickel Pty Ltd (ACN 009 842 068)
QNS	Queensland Nickel Sales Pty Ltd (ACN 009 872 566)
QNI Resources	QNI Resources Pty Ltd (ACN 054 117 921)
QNI Metals	QNI Metals Pty Ltd (ACN 066 656 175)
Quotation Period (QP) Adjustments	Post sale adjustments to final price paid for nickel ore (when both buying and selling). Adjustments are generally based on the LME price for nickel averaged

Table 25: Glossary of Terms

Abbreviation	Definition
	over the quotation period of (2) months.
Realise	Convert assets into cash, often by selling them.
Refinery	Yabulu Nickel Refinery
Report As To Affairs (RATA)	Report as to Affairs prepared by the Director in accordance with Section 438B of the Act
Second Meeting of Creditors	The Second Meeting of Creditors convened in accordance with Section 439A of the Act
Shadow director	A natural person not on the public register as a director of a company but who directs and manages the company's affairs and is taken by the Corporations Act 2001 to be a director.
Unsecured Creditors	A creditors who does not hold security over assets of the Company
USD$	United States Dollar

Annexure 2 – Summary of Receipts and Payments for the period of 18 January 2016 to 31 March 2016

Table 26: Receipts and Payments (AUD)

Description	Amount ($)
Opening Cash Balance (as at 18 Jan 2016)	1,157,149
Receipts	
Proceeds from Asset sales	3,345,531
Diesel Rebate/GST Refund	2,447,273
Interest	18,311
Other Receipts	142,493
Transfer from USD Account	21,636,912
Transfer from Term Deposit	242,752
QP Adjustments	595,623
Total Receipts	28,428,895
Payments	
Ore Purchases	(158,712)
Ore Shipments Costs	(2,548,502)
Trade Creditors	(4,438,334)
Administrators Costs	(711,276)
Payroll	(7,190,067)
Coal Purchases	(572,923)
Gas Purchases	(6,047,884)
Excise on Fuel	(1,946,297)
QP Adjustments	(595,623)
Total Payments	(24,209,618)
Net Cash Position	5,376,426

Table 27: Receipts and Payments (USD)	
Description	**Amount ($)**
Opening Cash Balance (as at 18 Jan 2016)	63,894
Receipts	
Nickel and Cobalt Sales	25,796,995
Interest	459
Other Receipts	908,709
Term Deposit	635,212
QP Adjustments	943,829.00
Total Receipts	28,285,204
Payments	
NHC Purchases	(87,737)
Ore Purchases	(5,409,240)
Ore Shipping Costs	(2,122,505)
Fuel and Oil Purchases	(3,614,560)
Other Expenses	(25,222)
Transfer to AUD Account	(13,900,000)
QP Adjustments	(943,829)
Total Payments	(26,103,093)
Net Cash Position	2,246,005

Annexure 3 – Personal Property Security Registrations

Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
A.S. Harrison & Co Proprietary Limited	3 September 2013	201309030034757	Other Goods
A.S. Harrison & Co Proprietary Limited	3 September 2013	201309030037846	Other Goods
Aggreko Generator Rentals Pty. Limited	30 January 2012	201112203246454	Other Goods
Alfa Laval Australia Pty Ltd	22 December 2013	201312220001719	Other Goods
Alfa Laval Australia Pty Ltd	22 December 2013	201312220005883	Other Goods
Allshelter Pty Ltd	12 March 2015	201503120031008	Other Goods
Antec Group Pty Limited	18 November 2014	201411180029123	Other Goods
Applied Industrial Technologies Pty Ltd	19 April 2012	201204190074244	Other Goods
Atco Structures & Logistics Pty Ltd	18 June 2012	201206180031344	Other Goods
Atlas Copco Australia Pty Ltd	8 December 2015	201512080015893	Motor Vehicle
Atlas Copco Australia Pty Ltd	8 December 2015	201512080016286	Motor Vehicle
Atlas Copco Australia Pty Ltd	14 December 2015	201512140042183	Motor Vehicle
Atlas Copco Australia Pty Ltd	14 December 2015	201512140044648	Other Goods
Atlas Specialty Metals Pty Ltd	11 February 2012	201202110026986	Other Goods
Ausco Modular Pty Limited	9 March 2012	201203090004884	Other Goods
Ausco Modular Pty Limited	23 March 2012	201203230004751	Other Goods
Australasian Solvents And Chemicals Company Pty. Ltd.	24 April 2012	201204240084818	Other Goods
Australian Lining Company Pty Ltd	31 January 2013	201301310062128	Other Goods
Axieo Operations (Australia) Pty Limited	22 December 2014	201412220076054	Other Goods
B P Australia Pty Ltd	30 January 2012	201201101126520	Other Goods
Basf Australia Ltd.	30 January 2012	201112203203012	Other Goods
Basf Australia Ltd.	6 June 2012	201206060010062	Other Goods
Bidvest Australia Limited	3 May 2014	201405030020774	Other Goods
Bluescope Distribution Pty Ltd	21 March 2012	201203210077144	Other Goods

Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
Boc Limited	29 January 2014	201401290489878	Other Goods
Boq Finance (Aust) Limited	19 March 2013	201303190013903	Other Goods
Bradken Resources Pty Limited	5 June 2012	201206050066381	Other Goods
Bridgestone Australia Ltd.	14 August 2015	201508140030881	Other Goods
Bridgestone Earthmover Tyres Pty Ltd	30 January 2012	201201051450076	Other Goods
Bridgestone Earthmover Tyres Pty Ltd	8 July 2014	201407080067188	Other Goods
Btp Parts Pty Ltd	20 October 2014	201410200062199	Other Goods
Btp Parts Pty Ltd	20 October 2014	201410200062238	Other Goods
Campbell Mining Services Pty Ltd	21 August 2015	201508210040271	Motor Vehicle
Campbell Mining Services Pty Ltd	21 August 2015	201508210040263	Other Goods
Cape Australia Onshore Pty Ltd	9 July 2014	201407090062448	Motor Vehicle
Cape Australia Onshore Pty Ltd	9 July 2014	201407090063398	Motor Vehicle
Cape Australia Onshore Pty Ltd	9 July 2014	201407090059292	Other Goods
Cape Australia Onshore Pty Ltd	9 July 2014	201407090059942	Other Goods
Capral Limited	30 January 2012	201201120650576	Other Goods
Capral Limited	23 November 2015	201511230042478	Other Goods
Caps Australia Pty Ltd	31 January 2014	201401310307465	Other Goods
Castrol Australia Pty. Limited	30 January 2012	201201101173536	Other Goods
Castrol Australia Pty. Limited	30 January 2012	201201101175203	Other Goods
Centrel Pty Ltd	30 January 2012	201112230887266	Other Goods
China First Pty Ltd	14 January 2016	201601140029005	All PAAP
CNW Pty Ltd	30 January 2012	201201120706780	Other Goods
Coates Hire Operations Pty Limited	6 October 2015	201510060034859	Motor Vehicle
Coates Hire Operations Pty Limited	6 October 2015	201510060034624	Other Goods
Coventry Group Limited	13 August 2013	201308130069878	Other Goods
Crown Equipment Pty. Limited	17 September 2015	201509170014046	Motor Vehicle

Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
Crown Equipment Pty. Limited	17 September 2015	201509170014051	Other Goods
Danfoss (Australia) Proprietary Limited	30 October 2012	201210300050740	Other Goods
Energy Power Systems Australia Pty. Limited.	2 February 2012	201202020011939	Motor Vehicle
Energy Power Systems Australia Pty. Limited.	2 February 2012	201202020011630	Other Goods
Force Corp Pty Ltd	18 May 2012	201205180034512	Motor Vehicle
Fuelfix Pty Ltd	22 February 2012	201202220076926	Other Goods
Hastings Deering (Australia) Limited	10 February 2012	201202100066933	Motor Vehicle
Hastings Deering (Australia) Limited	5 June 2013	201306050066989	Motor Vehicle
Hastings Deering (Australia) Limited	10 February 2012	201202100066573	Other Goods
Hastings Deering (Australia) Limited	5 June 2013	201306050068021	Other Goods
Ict Finance Pty Ltd, Australian Print Holdings Pty Ltd	24 February 2012	201202240032764	Other Goods
ICT Finance Pty Ltd, Australian Print Holdings Pty Ltd	24 February 2012	201202240032772	Other Goods
ICT Finance Pty Ltd, Australian Print Holdings Pty Ltd	24 February 2012	201202240032786	Other Goods
Incitec Pivot Limited	27 February 2013	201302270050350	Other Goods
Iplex Pipelines Australia Pty Limited	3 April 2014	201404030068964	Other Goods
Klinger Limited	29 January 2014	201401290170147	Other Goods
Laser Central Pty Ltd	17 September 2014	201409170026882	Other Goods
Leaseplan Australia Limited	15 February 2012	201202150018723	Motor Vehicle
Leaseplan Australia Limited	8 January 2014	201401080013999	Motor Vehicle
Leaseplan Australia Limited	8 January 2014	201401080027801	Motor Vehicle
Leaseplan Australia Limited	10 January 2014	201401100035389	Motor Vehicle
Macquarie Leasing Pty Ltd	30 January 2012	201112290272934	Motor Vehicle
Metal Manufactures Limited	28 February 2012	201202280098862	Other Goods

Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
Metal Manufactures Limited	14 January 2014	201401140067469	Other Goods
Metso Minerals (Australia) Limited	25 September 2014	201409250013139	Other Goods
Midway Metals Pty Ltd	13 April 2012	201204130064048	Other Goods
Mtu Detroit Diesel Australia Pty Limited	20 February 2012	201202200022585	Other Goods
Northern Iron And Brass Foundry Pty. Ltd.	22 May 2014	201405220055209	Other Goods
Orica Australia Pty Ltd, Chemicals Australia Operations Pty Ltd	14 February 2012	201202140233301	Other Goods
Orix Australia Corporation Limited	30 January 2012	201112190196353	Motor Vehicle
Orix Australia Corporation Limited	30 January 2012	201112190196877	Motor Vehicle
Orix Australia Corporation Limited	30 January 2012	201112190198375	Motor Vehicle
Orix Australia Corporation Limited	30 January 2012	201112190201412	Motor Vehicle
Orix Australia Corporation Limited	12 February 2013	201302120026435	Motor Vehicle
Pentair Sales Australia Pty Limited	12 April 2012	201204120016475	Other Goods
Quantum Chemicals Pty Ltd	11 May 2012	201205110048658	Other Goods
Ramelec (Qld.) Pty. Ltd.	31 July 2013	201307310043317	Other Goods
Ramelec Australia Pty Ltd	30 July 2013	201307300050721	Other Goods
Redox Pty Ltd	15 February 2012	201202150135073	Other Goods
Resource Equipment Ltd	2 May 2014	201405020059892	Motor Vehicle
Resource Equipment Ltd	22 February 2012	201202220061814	Other Goods
Resource Equipment Ltd	2 May 2014	201405020059885	Other Goods
Royal Wolf Trading Australia Pty Limited	30 January 2012	201112203273146	Other Goods
Royal Wolf Trading Australia Pty Limited	10 January 2013	201301100047513	Other Goods
Sandvik Australia Pty Ltd	30 January 2012	201201300035198	Other Goods
Sandvik Mining And Construction Australia Pty Ltd	23 August 2012	201208230026965	Other Goods
Sandvik Mining And Construction Australia Pty Ltd	23 August 2012	201208230027342	Other Goods

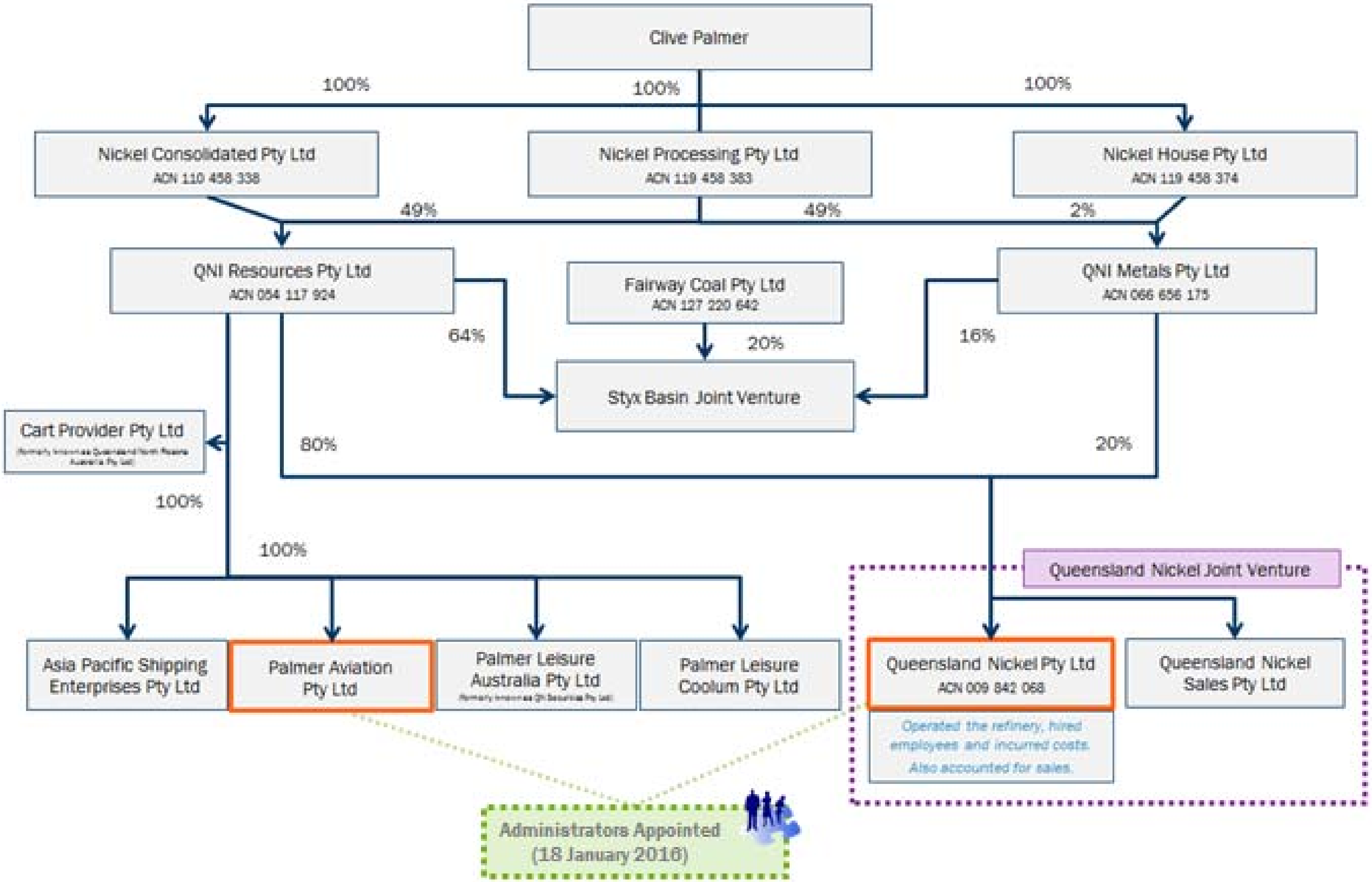
Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
Schneider Electric (Australia) Pty Limited	2 April 2013	201304020044723	Other Goods
Siemens Ltd.	10 February 2012	201202100239341	Other Goods
Sitemax Group Pty Ltd	26 June 2014	201406260031438	Other Goods
Skf Australia Pty. Ltd.	19 April 2012	201204190044313	Other Goods
Spirax Sarco Pty Ltd	8 March 2013	201303080020429	Other Goods
Suncorp-Metway Limited	18 April 2013	201304180010659	General Intangible
The Trustee For The BLEJ Mcmahon Family Trust, BLEJ INVESTMENTS PTY LTD	29 May 2015	201505290018413	Other Goods
The Trustee For WHIFFEN FAMILY TRUST	17 September 2013	201309170049738	Motor Vehicle
Toshiba International Corporation Pty Ltd	21 December 2012	201212210043204	Other Goods
Toshiba International Corporation Pty Ltd	21 December 2012	201212210043262	Other Goods
Triangle Cables (Aust) Pty Ltd	19 November 2015	201511190052414	Other Goods
Trinity Petroleum Services Pty. Ltd.	26 October 2015	201510260026280	Other Goods
Ullrich Aluminium Pty. Limited, Wintec Aluminium Pty Ltd	27 August 2012	201208270045135	Other Goods
Vale Nouvelle-Calédonie S.A.S.	22 July 2013	201307220017467	Other Goods
Vale Nouvelle-Calédonie S.A.S.	22 July 2013	201307220017479	Other Goods
Vale Nouvelle-Calédonie S.A.S.	22 July 2013	201307220017480	Other Goods
Vale Nouvelle-Calédonie S.A.S.	22 July 2013	201307220017498	Other Goods
Vale Nouvelle-Calédonie S.A.S.	15 July 2015	201507150047103	Other Goods
Vesuvius Australia Pty Ltd	12 March 2015	201503120009662	Other Goods
Viscount Plastics (Australia) Pty Ltd	20 March 2013	201303200002829	Other Goods
Viscount Plastics (Australia) Pty Ltd	20 March 2013	201303200003018	Other Goods
Vital Chemical Pty. Ltd.	18 November 2015	201511180024812	Other Goods
Waco Kwikform Limited	30 January 2012	201112201382034	Other Goods
Waco Kwikform Limited	6 March 2012	201203060041184	Other Goods
Waratah Coal Pty Ltd	14 January 2016	201601140029448	All PAAP

Table 28: PPS Registrations

Security Interests	Date Registered	PPSR Registration Number	Collateral Class
Weg Australia Pty. Ltd.	18 May 2012	201205180080973	Other Goods
Weg Australia Pty. Ltd.	18 May 2012	201205180081274	Other Goods
Xylem Water Solutions Australia Limited	20 January 2014	201401200067168	Other Goods
Xylem Water Solutions Australia Limited	20 January 2014	201401200068618	Other Goods

Annexure 4 – Organisational Chart



Annexure 5 – Queensland Nickel Group Financial Report

Queensland Nickel Group

Special Purpose Financial Statements

Year ended 30 June 2015

Contents

Queensland Nickel Group
Statement of income and expenditure
For the year ended 30 June 2015

	2015 $'000	2014 $'000
Revenue from continuing operations	**669,329**	657,027
Other income	**7,283**	26,028
Cost of sales	**(697,389)**	(670,732)
Administrative expenses	**(38,078)**	(33,303)
Finance costs	**(12,719)**	(16,485)
Selling and distribution expenses	**(11,449)**	(6,957)
Gain/ (Loss) on sale of investments	-	7,424
Impairment reversals for property, plant and equipment (net of depreciation)	**618,152**	-
Impairment of tenements	**(20,000)**	-
Profit/(loss) before income tax	**515,129**	(36,998)
Income tax benefit / (expense)	**(61,821)**	(18,274)
Profit/(loss) for the period attributable to the members of the Queensland Nickel Group	**453,308**	(55,272)

The above statement of income and expenditure should be read in conjunction with the accompanying notes including the basis of preparation in note 1.

Queensland Nickel Group
Statement of assets and liabilities
As at 30 June 2015

	2015 $'000	2014 $'000
ASSETS		
Current assets		
Cash and cash equivalents	8,631	20,590
Term deposits	9,280	16,879
Trade and other receivables	15,186	22,106
Other Assets	5,171	21,444
Inventories	121,751	118,572
Income tax receivable	-	-
Total current assets	160,019	199,591
Non-current assets		
Property, plant and equipment	2,193,409	563,468
Tenements	68,560	88,560
Deferred tax assets	-	111,900
Trade and other receivables	895	19,513
Other	2,715	3,048
Available for sale investments	-	-
Total non-current assets	2,265,579	786,489
Total assets	2,425,598	986,080
LIABILITIES		
Current liabilities		
Trade and other payables	58,499	52,399
Provisions	22,874	25,909
Loans and borrowings	2,154	2,240
Total current liabilities	83,527	80,548
Non-current liabilities		
Provisions	46,373	322,422
Deferred tax liability	322,113	-
Loans and borrowings	23,147	20,588
Total non-current liabilities	391,633	343,010
Total liabilities	475,160	423,558
Net assets	1,950,438	562,522

The above statement of assets and liabilities should be read in conjunction with the accompanying notes including the basis of preparation in note 1.

Queensland Nickel Group
Statement of cash flows
For the year ended 30 June 2015

	2015 $'000	2014 $'000
Cash flows from operating activities		
Receipts from customers	669,704	646,828
Payments to suppliers and employees	(644,917)	(670,293)
Interest received	498	1,049
Interest paid	(1,319)	(1,827)
Taxation received	-	-
Net cash inflow/(outflow) from operating activities	23,966	(24,243)
Cash flows from investing activities		
Payments for property, plant and equipment	(14,725)	(14,131)
Payments for acquisition of investments	-	-
Proceeds from sale of property, plant and equipment	-	20,983
Payments for exploration and evaluation	-	-
Cash received on disposal of subsidiaries	-	36,734
Net cash disposed on loss of control of subsidiaries	-	-
Net cash outflow from investing activities	(14,725)	43,586
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	(2,415)	(2,963)
Loan termination fees	-	(3,258)
Loans (issued to)/received related companies	(18,785)	626
Loans received from related companies	-	-
Net cash inflow/(outflow) from financing activities	(21,200)	(5,595)
Net increase/(decrease) in cash and cash equivalents	(11,959)	13,748
Cash and cash equivalents at the beginning of the financial period	20,590	6,842
Cash and cash equivalents at the end of the financial period	8,631	20,590

The above statement of cash flows should be read in conjunction with the accompanying notes including the basis of preparation in note 1.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies

These special purpose financial statements comprising the:

- Statement of income and expenditure;
- Statement of assets and liabilities; and
- Statement of cash flows;

have been prepared for distribution to the owners of the Queensland Nickel ("QN") Group to satisfy their requirements for financial statements as at 30 June 2015 and for the year then ended. The accounting policies used in the preparation of this report are, in the opinion of the QN Group appropriate to meet the needs of the owners.

The basis of preparation of these special purpose financial statements is described at Note 1(b). The financial statements comply with the measurement and recognition requirements of Australian Accounting Standards. Only presentation requirements of Australian Accounting Standards with respect to the classification of income and expenses, assets and liabilities and cash flows have been complied with.

The requirements of Accounting Standards and other professional reporting requirements in Australia do not have mandatory applicability to the QN Group at 30 June 2015 because it is not a reporting entity. Accordingly, these special purpose financial statements do not purport to be a complete financial report.

(a) Included entities

The special purpose financial statements represents the aggregated income and expenses, assets and liabilities and cash flows of the QN Group entities and joint venture interests as shown in the table below unless otherwise indicated:

	Country of incorporation	% beneficial equity interest		% legal equity interest	
		2015	2014	2015	2014
Participants in the Queensland Nickel Joint Venture					
QNI Resources Pty Ltd	Australia	80%	80%	80%	80%
QNI Metals Pty Ltd	Australia	20%	20%	20%	20%
Participants in the Styx Basin Joint Venture					
QNI Resources Pty Ltd	Australia	64%	64%	64%	64%
QNI Metals Pty Ltd	Australia	16%	16%	16%	16%
Jointly controlled entities of QNI Resources Pty Ltd					
Queensland Nickel Pty Ltd	Australia	80%	80%	80%	80%
Queensland Nickel Sales Pty Ltd	Australia	80%	80%	80%	80%
Jointly controlled entities of QNI Metals Pty Ltd					
Queensland Nickel Pty Ltd	Australia	20%	20%	20%	20%
Queensland Nickel Sales Pty Ltd	Australia	20%	20%	20%	20%
Controlled entities of QNI Resources Pty Ltd					
QN South Africa Pty Ltd	Australia	100%	100%	100%	100%
Queensland Nickel Mining Pty Ltd	Australia	100%	100%	100%	100%
Palmer Aviation Pty Ltd	Australia	100%	100%	100%	100%
Asia Pacific Shipping Enterprises Pte. Ltd.	Singapore	100%	100%	100%	100%

All transactions between these entities during the year and amounts payable or receivable at balance date have been eliminated in full.
Subsidiaries are fully consolidated from the date on which control is obtained by the QN Group. They are de-consolidated from the date that control ceases.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies (continued)

(b) Basis of preparation

Going concern basis

The QN Group's financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the discharge of liabilities and commitments in the ordinary course of business. As at 30 June 2015 the QN Group's total current assets exceeds its total current liabilities by $76.5 million and its total assets exceeds its total liabilities by $1,950.4 million.

The QN Group's ability to generate sufficient net cash inflows from operations in order to meet its obligations as and when they fall due is dependent upon improvement in nickel commodity prices; the ongoing QN Group cost reduction program and funding options which may be considered from time to time.

At 30 June 2015 the QN Group has minimal loans and borrowings payable to third parties totalling $25.3 million.

On the basis of the above, the Directors are of the opinion there are reasonable grounds to believe the Group will be able to pay its debts as and when they fall due and payable.

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain assets which, as noted, are at fair value.

Critical accounting estimates

The preparation of financial statements in conformity with the measurement and recognition requirements of Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the QN Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Comparatives

Certain comparatives have been reclassified for consistency with current period presentation.

(c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial reporting period except as follows:

Revaluation of property, plant and equipment

The QN Group re-assessed its accounting for property, plant and equipment with respect to measurement after initial recognition. The QN Group has previously measured all property, plant and equipment using the cost model as set out in AASB 116, whereby after initial recognition assets classified as property, plant and equipment were carried at cost less accumulated depreciation and accumulated impairment losses.

On 30 June 2015, the QN Group elected to change the method of accounting for property, plant and equipment, since the QN Group believes that the revaluation model in AASB 116 provides more relevant and reliable information.

After initial recognition, the QN Group uses the revaluation model, whereby property, plant and equipment will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The QN Group applied the revaluation model prospectively.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies (continued)

(d) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the QN Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the QN Group's share of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of income and expenditure, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Revenue recognition

Sale of goods
Sales are brought to account when the risks and rewards of ownership of the products are deemed to have passed to the customer pursuant to an enforceable contract, when selling prices are known or can be reasonably estimated and when the products are in a form that requires no further treatment by the QN Group.

A significant portion of the QN Group's metal and concentrate sales are subject to a quotation period. Settlement is generally based on average market prices for a specified future period. During the quotation period, sales are re-valued based on management's assessment of London Metals Exchange forward prices with any adjustments arising reflected in sales revenue.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset).

Rendering of services
Revenue from the rendering of services is recognised when the services are provided. Any revenue received in advance of services being provided is deferred as unearned income in the statement of financial position.

Note 1. Summary of significant accounting policies (continued)

(f) Income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the QN Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

(i) When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

(ii) When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amounts of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies (continued)

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the QN Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and expenditure.

Non-monetary items are measured in terms of historical cost in a foreign currency by applying the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(i) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where they arise, finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense. The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the entity will obtain ownership of the asset, the life of the asset.

Other operating lease payments are charged to the statement of income and expenditure in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies (continued)

(j) Impairment of assets

The QN Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. The carrying values of property, plant and equipment are assessed for impairment when indicators of such impairment exist. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. Impairment losses on assets other than property, plant and equipment are recognised in the statement of income and expenditure in those expense categories consistent with the function of the impaired asset.

For property, plant and equipment assets that have been previously revalued with the revaluation taken to other comprehensive income, impairment losses are recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the QN Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income and expenditure unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(k) Fair value measurement

After initial recognition, property, plant and equipment assets are measured at fair value using the revaluation model.

For the purposes of impairment testing, the QN Group uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1. Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes short-term, highly liquid investments which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of assets and liabilities.

(m) Term deposits

The QN group has pledged a part of its short-term deposits as security for contractual obligations. Term deposits held as security are not included as cash or cash equivalents for purposes of the statement of cash flows.

(n) Trade and other receivables

Trade and other receivables are recognised at agreed prices or, in the case of provisionally priced metal and concentrate sales, at fair values based on forward London Metal Exchange prices. Trade debtors are generally settled within 3 months depending on the product sold and the contractual arrangement.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the QN Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of income and expenditure.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value.

Finished goods and work in progress inventories are valued using absorption costing, at the average cost over the period of production or net realisable value, whichever is lower. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure. Costs are assigned mainly on the basis of weighted average costs.

Stores represent consumable supplies and maintenance spares and are valued at cost. These are reviewed on a regular basis and an allowance for obsolete inventory recognised when required.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the QN Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

After initial recognition, property, plant and equipment assets are measured at fair value using the revaluation model, less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the statement of income and expenditure, the increase is recognised in the statement of income and expenditure. A revaluation deficit is recognised in the statement of income and expenditure, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Property, plant and equipment (excluding freehold land), are depreciated over their useful economic lives as follows:

Fixed asset type	Average Useful Life	Method
Land	Not Depreciated	N/A
Closure Asset	50 years to 30/6/2065	Straight line
Computer Hardware	3 years	Straight line
Computer Software	4 years	Straight line
Motor Vehicles	4 years	Straight line
Mobile and Heavy Earth Moving Equipment	5 years	Straight line
General Equipment, Small Items, Furniture Laboratory Equipment	10 years	Straight line
Major Structural Plant & Equipment including Kilns, Tanks, Filters, Scrubbers, Packing Plant, Conveyor Systems, Structures, Pipe racks, Power Plant, Gas Plant etc.	15 to 50 years	Straight line

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income and expenditure.

Where items of plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1 Summary of significant accounting policies (continued)

(q) Exploration and evaluation expenditure

Exploration and evaluation expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in the statement of income and expenditure in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest. The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(r) Financial Assets

Initial Recognition
Financial assets within the scope of AASB 139 are classified as loans and receivables or available-for-sale financial assets, as appropriate. The QN Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the instruments were acquired.

Financial assets are recognised initially at fair value, normally being the transaction price plus any directly attributable transaction costs.

The QN Group's financial assets include cash and cash equivalents, trade and other receivables, loans and advances and available for sale investments.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortised cost using the effective interest rate method less impairment losses.

Gains and losses are recognised in the statement of income and expenditure when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. Subsequent to initial recognition, such financial assets are measured at fair value with unrealised gains and losses recognised directly in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in the statement of income and expenditure. An impairment expense is recognised when there has been a significant or prolonged decline in the value of the available-for-sale investment.

Investments in subsidiaries are recognised at cost less any impairment losses in the QN group.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 1 Summary of significant accounting policies (continued)

(s) Interests in joint operations

Australian Accounting Standards define a joint arrangement as one over which two or more parties have joint control, which is the contractually agreed sharing of control over an arrangement. This exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

The QN Group has interests in joint operations. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the QN Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from a joint operation
- Share of the revenue from the sale of output by the joint operation
- Expenses, including its share of any expenses incurred jointly.

(t) Trade and other payables

Trade and other payables represent liabilities for goods and services received (whether or not billed to the entity), and, with the exception of provisionally priced metal and concentrate purchases, are carried at amortised cost. Due to their short-term nature they are not discounted.

Provisionally priced metal and concentrate purchases are recognised at fair values based on forward London Metal Exchange prices. Trade and other payables based on London Metal Exchange prices are generally settled within 2 months to 4 months depending on the product purchased and the contractual arrangement.

Payables to related parties are carried at the principal amount and are unsecured.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of income and expenditure over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the QN Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(v) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are directly attributable to the acquisition, development or construction of a qualifying asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs included in the cost of non-current assets constructed by the entity are those costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

Note 1 Summary of significant accounting policies (continued)

(w) Provisions

Provisions are recognised when the QN Group has a present obligation (legal or constructive) to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(x) Rehabilitation and restoration costs

The QN Group records the present value of estimated costs of legal and constructive obligations required to restore certain operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes rehabilitating tailings dams, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in the statement of income expenditure as a finance cost. Additional disturbances or changes in restoration costs will be recognised as additions or charges to the corresponding assets and restoration liability when they occur.

(y) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 2. Significant accounting estimates and judgments

Significant accounting estimates and assumptions

The QN Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Forecast nickel price estimates

The QN Group makes forecasts of nickel prices to determine the extent of its obligations for future settlements of product purchase and sale agreements. Significant judgment is required in forecasting these prices, which are determined based on information at the time of making the estimate. Changes in estimates are dealt with on a prospective basis as they arise.

(ii) Income taxes

The QN Group is subject to income taxes in Australia. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iii) Provision for site restoration

Provisions are made for the estimated cost of restoration relating to areas disturbed during the refinery's operation up to balance date but not yet rehabilitated. Provision has been made based on legal and constructive obligations for all disturbed areas at the balance date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows. The estimated cost of restoration includes the current cost of re-contouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of restoration obligations which may be incurred due to the impact of possible future changes in environmental legislation. The amount of the provision relating to restoration of refinery infrastructure and dismantling obligations is recognised at the commencement of the project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a liability with a corresponding asset included in plant and equipment.

At each balance date the restoration liability is re-measured in line with changes in legal and constructive obligations, discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to restoration of infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as finance cost in the statement of income and expenditure as it occurs.

If the change results in a liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the statement of income and expenditure. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the statement of income and expenditure in the period in which it occurs.

There is significant judgement required in determining legal and constructive obligations at each balance date and environmental legislation underlying such assumptions may change in the future. Such changes will be dealt with on a prospective basis. In the current year the legal and constructive obligations underlying the provision for the nickel refinery site were reviewed to contemplate the rehabilitation of the site to an 'industrial use' standard. Previously the provision had contemplated the rehabilitation of the site to an original undisturbed state. As a result of this review, the provision for site restoration at 30 June 2015 is $42.5 million (30 June 2014: $318.6 million).

Queensland Nickel Group
Notes to the financial statements
For the year ended 30 June 2015

Note 2. Significant accounting estimates and judgments (continued)

(iv) Revaluation of property, plant and equipment

The QN Group applies the revaluation model to property, plant and equipment and recognises any changes in fair value in revaluation surplus reserve in equity.

The QN Group assessed the fair value property, plant and equipment at 30 June 2015 with reference to an internal valuation methodology based on discounted cash flow (DCF) models using life of refinery cash flows, including the impact of expansionary capital. The cash flows are derived from refinery budgets, including forecast metal sales prices, foreign exchange rates and operating costs. The derived fair value is sensitive to:

a) The discount rate used for the discounted cash flow model; and
b) Changes in forecast cash flows, particularly forecast metal sales prices, foreign exchange rates, operating costs and estimated capital expenditure requirements.

At 30 June 2015 a revaluation surplus of $964.433 million is recorded in the Revaluation reserve (30 June 2014: $nil).

(v) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. For the purposes of impairment testing, the Group uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets.
The fair value less costs of disposal for the Group's CGU's are measured based on either:

- Available data from sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs from disposing of the asset; or
- Discounted cash flows models using life of refinery cash flows, including the impact of expansionary capital. The cash flows are derived from refinery budgets, including forecast metal sales prices, foreign exchange rates and operating costs. The derived recoverable amount is sensitive to:
  a) The discount rate used for the discounted cash flow model; and
  b) Changes in forecast cash flows, particularly forecast metal sales prices, foreign exchange rates, operating costs and estimated capital expenditure requirements.

(vi) Provision for funding obligations

The QN Group makes estimates and assumptions concerning certain contracts to determine the extent of its obligations under those agreements. Significant judgment is required in forecasting these obligations which are determined based on information at the time of making the estimate. Changes in estimates are dealt with on a prospective basis as they arise.

Queensland Nickel Group
Directors' declaration
30 June 2015

In accordance with a resolution of the directors of the Queensland Nickel Group, we state that:-

In the opinion of the directors:-

(a) the special purpose financial statements comprising the statement of income and expenditure, statement of assets and liabilities and statement of cash flows as at 30 June 2015 and for the 12 months then ended:

i. Present fairly the Queensland Nickel Group's assets and liabilities as at 30 June 2015 and of its income and expenditure and cash flows for the 12 months then ended; and
ii. Comply with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent disclosed in Note 1.

(b) there are reasonable grounds to believe that Queensland Nickel Group will be able to pay its debts as and when they become due and payable.

This declaration has been made in accordance with a resolution of the directors.

Director of QNI Resources Pty Ltd & QNI Metals Pty Ltd:	**Clive Mensink**
Location:	**Brisbane**
Date:	**7 September 2015**

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Independent auditor's report to the participants of the Queensland Nickel Group

We have audited the accompanying special purpose financial report of the Queensland Nickel Group, which comprises the statement of assets and liabilities as at 30 June 2015, and the statement of income and expenditure and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the entities comprising the Queensland Nickel Group are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the financial reporting requirements and other needs of the participants of the group. The directors are also responsible for such controls as they determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the Australian professional accounting bodies.

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Opinion

In our opinion the financial report presents fairly, in all material respects, the Queensland Nickel Group's financial position as of 30 June 2015 and of its financial performance and cash flows for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the special purpose financial report which describes the basis of accounting. The special purpose financial report is prepared to assist the Queensland Nickel Group to meet the requirements of the participants of the group. As a result the special purpose financial report may not be suitable for another purpose.

Ernst & Young

Ernst & Young
Brisbane
7 September 2015

Annexure 6 – Analysis of Historical Financial Performance

Analysis of the Audited Financial Statements for the Joint Venture Group

Table 29: Statement of Assets and Liabilities

	FY13 $'000	FY14 $'000	FY15 $'000
Current Assets	184,094	199,591	160,019
Current Liabilities	(91,674)	(80,548)	(83,527)
Working Capital	$ 92,420	$ 119,043	$ 76,492
Working Capital Ratio (Current Asset: Current Liability)	2.01 : 1	2.48 : 1	1.92 : 1
Total Assets	1,076,251	986,080	2,425,598
Total Liabilities	(452,616)	(423,558)	(475,160)
Net Asset Position	$ 623,635	$ 562,522	$ 1,950,438

Table 30: Statement of Income and Expenditure

	FY13 $'000	FY14 $'000	FY15 $'000
Revenue from operations	618,186	657,027	669,329
Other Income	8,319	26,028	7,283
Less: Expenses	(747,988)	(727,477)	(759,635)
Less: Gain/ (Loss) on sale of investments	(33,142)	7,424	0
Profit/ (Loss) before impairment adjustments and income tax	$ (154,625)	$ (36,998)	$ (83,023)
Adjustment for impairments	(3,800)	0	598,152
Profit/ (Loss) before income tax	$ (158,425)	$ (36,998)	$ 515,129
Income tax	(10,633)	(18,274)	(61,821)
Profit/ (Loss) for the Queensland Nickel Group	$ (169,058)	$ (55,272)	$ 453,308

Table 31: Summary of Management Accounts

Description	Unit	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
LME Nickel Price	US$/lb	8.64	8.43	8.20	7.15	7.12	7.22	6.70	6.59	6.24	5.80	6.13	5.80	5.17	4.69	4.49	4.69	4.19	3.94
Liquid Net Assets	$'000	131,179	131,023	122,620	115,997	116,950	109,531	117,874	117,373	100,573	90,610	88,276	83,578	78,689	59,910	50,857	46,656	42,256	27,930
Working Capital Ratio		2.69 : 1	3.01 : 1	2.48 : 1	2.61 : 1	2.43 : 1	2.19 : 1	2.71 : 1	2.79 : 1	2.12 : 1	2.01 : 1	1.94 : 1	1.98 : 1	2.09 : 1	1.67 : 1	1.49 : 1	1.45 : 1	1.42 : 1	1.3 : 1
Net Assets	$'000	598,629	599,445	593,629	586,132	584,958	577,436	579,718	577,367	564,229	554,949	558,293	1,950,440	1,943,441	1,927,477	1,918,024	1,912,801	1,905,361	1,871,584
Total Revenue	$'000	67,671	74,585	51,369	50,234	58,381	63,419	71,640	52,898	41,912	43,470	54,711	42,807	59,210	25,414	38,912	43,843	17,504	39,434
EBITDA	$'000	9,834	6,945	(1,564)	(3,463)	4,755	(4,431)	9,879	2,387	(12,387)	(8,873)	(2,713)	(16,155)	(3,970)	(18,304)	(8,431)	(3,695)	(5,966)	(13,889)
EBITDA Margin %	%	14.53%	9.31%	-3.05%	-6.89%	8.14%	-6.99%	13.79%	4.51%	-29.56%	-20.41%	-4.96%	-37.74%	-6.70%	-72.02%	-21.67%	-8.43%	-34.08%	-35.22%
Net Refinery Cash Inflow / (Outflow)	$'000	(9,297)	4,410	(2,308)	6,662	(1,117)	(1,514)	10,777	5,990	1,103	(6,739)	(2,697)	4,683	3,128	(4,608)	7,257	(6,060)	(2,846)	(156)
Net Cash Inflow / (Outflow)	$'000	(13,523)	(404)	(5,172)	4,996	(1,964)	(2,992)	9,722	2,229	(3,691)	(7,860)	(4,061)	3,162	1,723	(5,170)	6,600	(6,529)	(1,222)	(739)

Table 32: Summary of Aged Payables

	Jul-15		Aug-15		Sep-15		Oct-15		Nov-15		Dec-15	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Current	24,946,525	74.9%	12,572,302	57.7%	14,920,521	65.1%	26,402,292	58.0%	17,197,891	39.6%	20,685,922	46.0%
31-60 days	5,408,783	16.2%	7,480,782	34.3%	5,533,358	24.1%	14,021,882	30.8%	16,756,013	38.6%	11,293,815	25.1%
61-90 days	996,865	3.0%	38,433	0.2%	745,599	3.3%	2,628,263	5.8%	5,098,265	11.7%	4,088,654	9.1%
91-120 days	45,201	0.1%	4,275	0.0%	9,532	0.0%	745,176	1.6%	2,628,263	6.1%	4,597,589	10.2%
120+ days	1,892,930	5.7%	1,700,533	7.8%	1,704,712	7.4%	1,713,250	3.8%	1,716,917	4.0%	4,294,242	9.6%
	$ 33,290,304	100.0%	$ 21,796,324	100.0%	$ 22,913,722	100.0%	$ 45,510,863	100.0%	$ 43,397,349	100.0%	$ 44,960,222	100.0%

Annexure 7 – Property Search Results

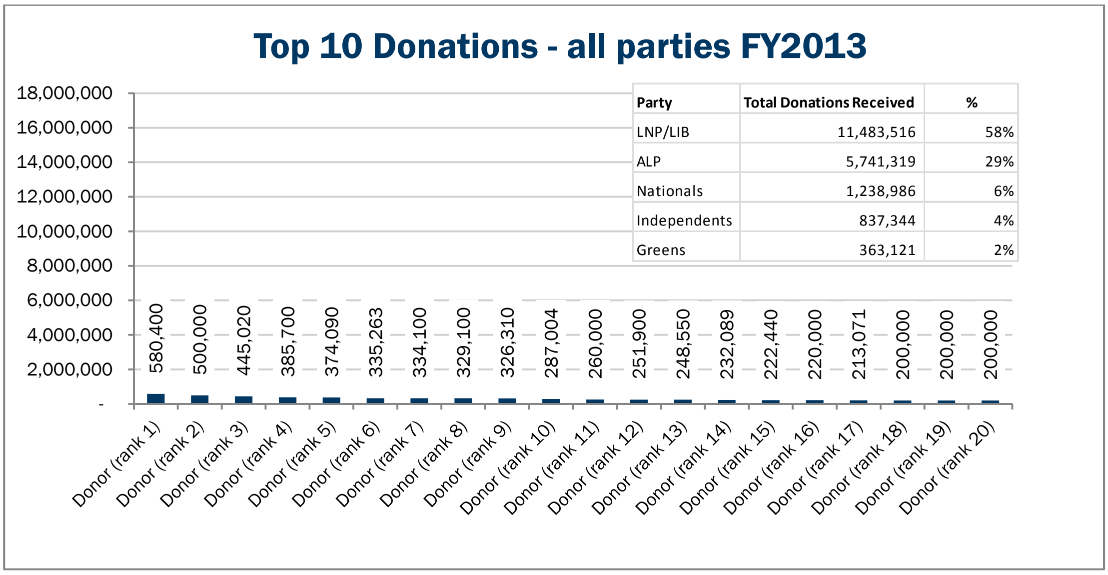
The property search revealed the Company is the registered owner of the following property:

Table 33: Property Search Results

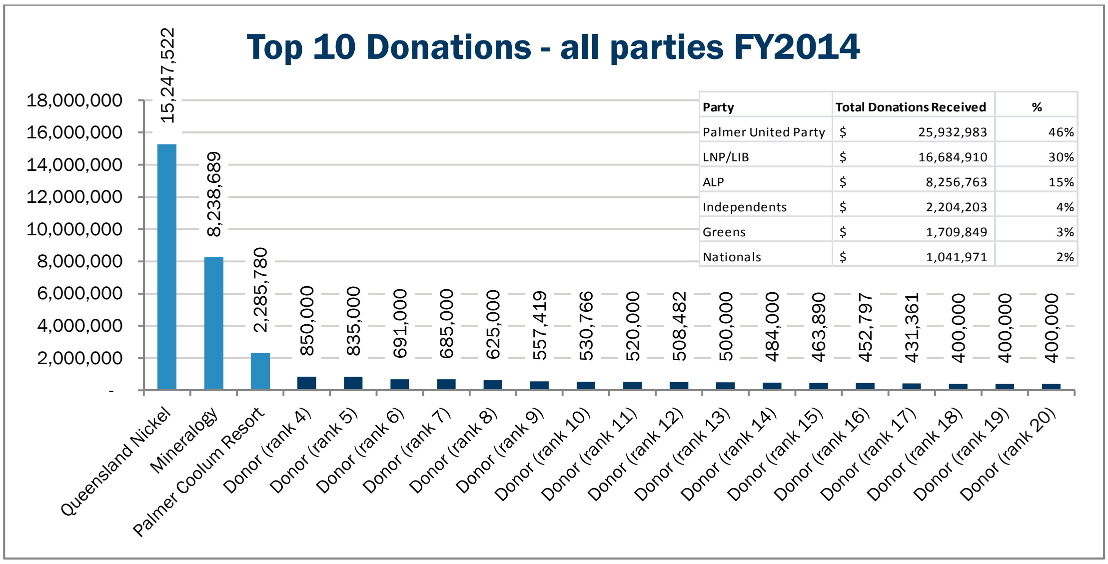
Property Address	Land Description	Proprietor
Bowden Road, Mount Low Qld 4818	Lot 1 Registered Plan 730220	Sole
Bowden Road, Mount Low Qld 4818	Lot 2 Registered Plan 709243	Sole
Bowden Road, Mount Low Qld 4818	Lot 3 Registered Plan 709243	Sole
Bowden Road, Mount Low Qld 4818	Lot 277 Crown Plan K124656	Sole

The properties detailed above are part of numerous lots contained within the Yabulu Refinery property. The other lots are owned either jointly or solely by QNI Metals Pty Ltd and QNI Resources Pty Ltd.

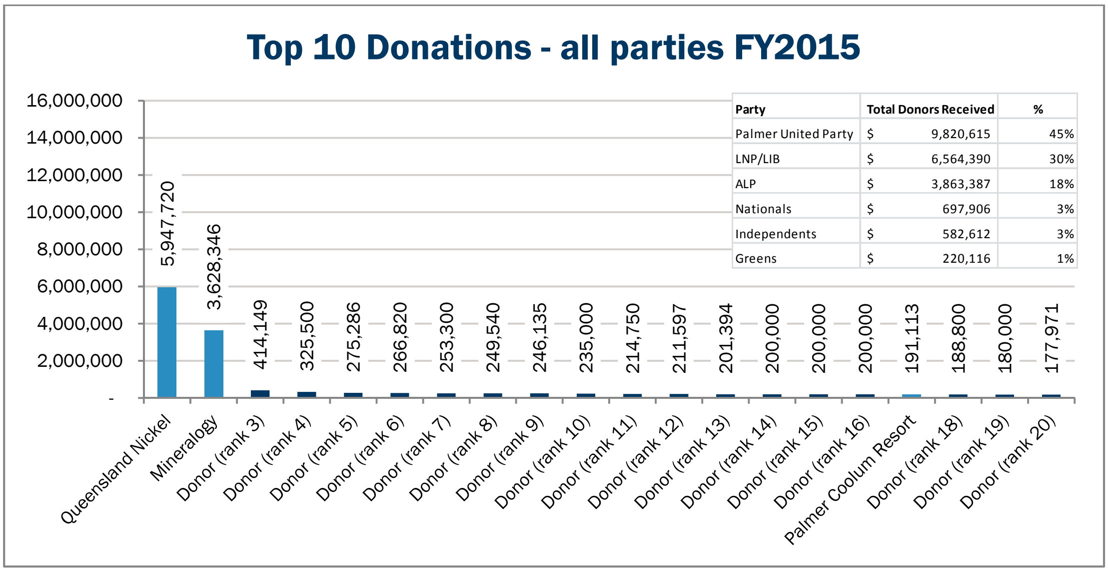
Annexure 8 – Summary of Political Party Donations



Party	Total Donations Received	%
LNP/LIB	11,483,516	58%
ALP	5,741,319	29%
Nationals	1,238,986	6%
Independents	837,344	4%
Greens	363,121	2%



Party		Total Donations Received	%
Palmer United Party	$	25,932,983	46%
LNP/LIB	$	16,684,910	30%
ALP	$	8,256,763	15%
Independents	$	2,204,203	4%
Greens	$	1,709,849	3%
Nationals	$	1,041,971	2%



Party		Total Donors Received	%
Palmer United Party	$	9,820,615	45%
LNP/LIB	$	6,564,390	30%
ALP	$	3,863,387	18%
Nationals	$	697,906	3%
Independents	$	582,612	3%
Greens	$	220,116	1%

Annexure 9 –Directorships of Mr Mensink

Detailed below are the current and former directorships of Mr Mensink

Table 34: Directorships of Mr Mensink

Company	Current/Former Director	Shareholding
A.C.N. 058 342 019 Pty Ltd	Ceased March 2013	Nil
Anshan Resources Pty Ltd	Current	Nil
Australian Commercial Research & Development Pty Ltd	Current	Nil
Australian Resources Limited	Current	Nil
Chatsbrook Pty Ltd	Current	Nil
Cold Mountain Stud Pty Ltd	Current	Nil
Cosmo Developments Pty Ltd	Current	Nil
Egidia Pty Ltd	Current	Nil
Fairway Coal Pty Ltd	Current	Nil
Football Australia Pty Ltd	Current	Nil
Holy Spirit Pty Ltd	Current	1 Ordinary Share
Galillee Infrastructure Pty Ltd	Current	Nil
Galillee Power Pty Ltd	Current	Nil
Gladstone Nickel Pipeline Pty Ltd	Current	Nil
Gladstone Nickel Project Pty Ltd	Current	Nil
Gladstone Pacific Nickel Limited	Current	Nil
Group Coal Pty Ltd	Current	Nil
International Exploration Limited	Ceased March 2011	Nil
International Minerals Pty Ltd	Ceased October 2012	Nil
Lennox Coal Pty Ltd	Current	Nil
Marlborough Nickel Pty Ltd	Current	Nil
Mineralogy Pty Ltd	Ceased January 2016	Nil
Normanton Pty Ltd	Current	Nil

Table 34: Directorships of Mr Mensink

Company	Current/Former Director	Shareholding
Palmer Aviation Pty Ltd	Current	Nil
Palmer Petroleum Pty Ltd	Ceased January 2011	Nil
QNI Metals Pty Ltd	Ceased December 2013	Nil
QNI Metals Pty Ltd	Ceased January 2015	Nil
QNI Metals Pty Ltd	Current	Nil
QNI Resources Pty Ltd	Ceased December 2013	Nil
QNI Resources Pty Ltd	Ceased January 2015	Nil
QNI Resources Pty Ltd	Current	Nil
Queensland Nickel Sales Pty Ltd	Current	Nil
ResourceHouse Pty Ltd	Current	Nil
Waratah Coal Pty Ltd	Ceased January 2016	Nil

Annexure 10 – Directorships of Mr Palmer

Detailed below are the current and former directorships of Mr Palmer

Table 35: Directorships of Mr Palmer

Company	Current/Former Director	Shareholding
A.C.N 119 455 686 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 455 748 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 455 873 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 455 917 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 456 085 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 456 594 Pty Ltd	Current	21 Ordinary Shares
A.C.N 119 456 674 Pty Ltd	Current	21 Ordinary Shares
Alpha GCP Pty Ltd	Current	Nil
Anshan Resources Pty Ltd	Current	Nil
Austeel Pty ltd	Current	Nil
Australasian Coal Pty Ltd	Current	Nil
Australian Commercial Research & Development Pty Ltd	Current	1 Ordinary Share
Balmoral Iron Pty Ltd	Current	Nil
Balmoral Mining Pty Ltd	Current	Nil
Barcaldine Coal Pty Ltd	Current	Nil
Bexfan Pty Ltd	Current	Nil
Blue Star Line Pty Ltd	Current	Nil
Cane River Mining Pty Ltd	Current	43 Ordinary Shares
Cart Provider Pty Ltd	Current	10,000 Ordinary Shares
Chatsbrook Pty Ltd	Current	4,802 Ordinary Shares
China First Pty Ltd	Ceased January 2016	Nil
Citic Holdings Pty Ltd	Current	Nil
Closeridge Pty Ltd	Current	5,796 Ordinary Shares

Table 35: Directorships of Mr Palmer

Company	Current/Former Director	Shareholding
Coal Exports Pty Ltd	Current	Nil
Coeur De Lion Holdings Pty Ltd	Current	Nil
Coeur De Lion Investments Pty Ltd	Current	Nil
Coeur De Lion Investments Pty Ltd	Ceased February 2012	Nil
Coeur De Lion Investments Pty Ltd	Ceased August 2012	Nil
Cold Mountain Stud Pty Ltd	Current	Nil
Coolum Country Club Pty Ltd	Current	Nil
Cosmo Developments Pty Ltd	Ceased May 2014	Nil
Dasines Pty Ltd	Current	4,801 Ordinary Shares
Degulla Coal Pty Ltd	Current	Nil
Deng Xiaoping Memorial Challenge Pty Ltd	Current	1 Ordinary Share
Drewmaster Pty Ltd	Current	Nil
Elect The President Pty Ltd	Current	1 Ordinary Share
Fairway Coal Pty Ltd	Current	Nil
Galilee Infrastructure Pty Ltd	Current	Nil
Galilee Power Pty Ltd	Current	Nil
GCL Projects Pty Ltd	Current	Nil
Gladstone Pacific Nickel Limited	Current	Nil
Group Coal Pty Ltd	Current	Nil
Hess Australia (Canning) Pty Limited	Ceased May 2011	Nil
IM Investment Holdings Pty Ltd	Current	Nil
International Iron Ore Sales Pty Ltd	Ceased July 2012	Nil
Jericho Coal Pty Ltd	Current	Nil
Lennox Coal Pty Ltd	Ceased March 2013	Nil
Magnetite Resources Pty Ltd	Current	4,810 Ordinary Shares
Mineralogy Canada Acquisition Corp Pty Ltd	Ceased January 2016	Nil

Table 35: Directorships of Mr Palmer

Company	Current/Former Director	Shareholding
Mineralogy Environmental Management Pty Ltd	Current	Nil
Mineralogy Mine Management Pty Ltd	Current	Nil
Mineralogy Pty Ltd	Ceased May 2014	25,400 Ordinary Shares
Netstar Pty Ltd	Current	Nil
Nickel Consolidated Pty Ltd	Current	4,802 Ordinary Shares
Nickel House Pty Ltd	Current	4,802 Ordinary Shares
Nickel Processing Pty Ltd	Current	4,802 Ordinary Shares
Normanton Pty Ltd	Current	Nil
Palmer Aviation Pty Ltd	Ceased January 2016	Nil
Palmer Coolum Resort Pty Ltd	Current	Nil
Palmer Coolum Resort Pty Ltd	Ceased February 2012	Nil
Palmer Foundation Pty Ltd	Current	Nil
Palmer Leisure Australia Pty Ltd	Current	4,004,800 Ordinary Shares
Palmer Leisure Coolum Pty Ltd	Current	100 Ordinary Shares
Palmer Petroleum Pty Ltd	Current	Nil
Petroleum Nominees Pty Ltd	Current	Nil
QN South Africa Pty Ltd	Current	Nil
QNI Metals Pty Ltd	Ceased April 2014	Nil
QNI Metals Pty Ltd	Ceased February 2015	Nil
QNI Metals Pty Ltd	Ceased January 2013	Nil
QNI Resources Pty Ltd	Ceased April 2014	Nil
QNI Resources Pty Ltd	Ceased February 2015	Nil
QNI Resources Pty Ltd	Ceased January 2013	Nil
Queensland Nickel Mining Pty Ltd	Current	Nil
Resource Investments (WA) Pty Ltd	Current	Nil
Resourcehouse Pty Ltd	Current	Nil

Table 35: Directorships of Mr Palmer

Company	Current/Former Director	Shareholding
River Crescent Pty Ltd	Current	4,802 Ordinary Shares
Styx Coal Pty Ltd	Current	4,801 Ordinary Shares
Thermal Australia Pty Ltd	Current	Nil
Thermal Australia Pty Ltd	Ceased March 2013	Nil
Waratah Coal Pty Ltd	Ceased July 2014	Nil
Waratah Coking Coal Pty Ltd	Current	Nil
Waratah Coking Coal Pty Ltd	Ceased July 2014	Nil
World Resources Group Pty Ltd	Current	Nil
Zeppelin International Pty Ltd	Current	80 Ordinary Shares

Annexure 11 –Real Property Searches of Mr Mensink

Summarised below are the properties registered in the name of Mr Mensink:

Table 36 - Real Property Searches – Mr Mensink

Property Location	Title Reference	Registered Encumbrances	Type of Ownership
Bracken Ridge, Queensland 4017	288RP810133	Westpac Banking Corporation Mortgage Commencement Date: 23 December 2015	Registered Owner
Paradise Point, Queensland 4216	193RP889159	Westpac Banking Corporation Mortgage Commencement Date: 23 December 2015	Registered Owner

Whilst the Administrators have relied upon the information retrieved from the land titles searches, there is no way of knowing the level of encumbrance which may attach to each of these properties.

Annexure 12 –Real Property Searches of Mr Palmer

Summarised below are the properties registered in the name of Mr Palmer:

Table 37: Real Property Searches – Mr Palmer

Property Location	Title Reference	Registered Encumbrances	Type of Ownership
Sunnybank Hills, Queensland 4109	75RP201947	None	Registered Owner
Broadbeach Waters, Queensland 4218	10RP88417	National Australia Bank Limited Mortgage Commencement Date: 14 July 1999	Registered Owner
Merrimac, Queensland 4226	23SP178025	None	Registered Owner
Merrimac, Queensland 4226	5SP214289	None	Registered Owner
Graceville, Queensland 4075	174RP29439	National Australia Bank Limited Mortgage Commencement Date: 10 August 2007	Registered Owner
Jandowae, Queensland 4410	1RP97220	None	Registered Owner - Trustee
Jandowae, Queensland 4410	2RP97220	None	Registered Owner - Trustee
Jandowae, Queensland 4410	11SP146016	None	Registered Owner - Trustee
Brisbane City, Queensland 4000	6CPB118227 2RP101086	None	Registered Owner
Fig Tree Pocket, Queensland 4069	20SP105450	National Australia Bank Limited Mortgage Commencement Date: 7 March 1996	Registered Owner
Yandina Creek, Queensland 4561	5RP103701	None	Registered Owner
Yaroomba, Queensland 4573	64BUP8847	Lease to the Heart of Lion Resort Club Limited Commencement Date: 21 December 1988 End Date: 20 December 2068	Registered Owner
Yaroomba, Queensland 4573	4BUP8856	Lease to the Heart of Lion Resort Club Limited Commencement Date: 21 December 1988 End Date: 20 December 2068	Registered Owner
Yaroomba, Queensland 4573	10GTP1975	Lease to Club L'Ambassadeur Limited - Commencement Date: 1 January 1989 End Date: 31 December 2069	Registered Owner
Craiglie, Queensland 4877	20SP144728	None	Registered Owner

Table 37: Real Property Searches – Mr Palmer			
Property Location	**Title Reference**	**Registered Encumbrances**	**Type of Ownership**
Little Mountain, Queensland 4551	129RP188143	None	Registered Owner
Little Mountain, Queensland 4551	130RP188143	None	Registered Owner

Whilst the Administrators have relied upon the information retrieved from the land titles searches, there is no way of knowing the level of encumbrance which may attach to each of these properties.

Annexure 13 –Current Legal Actions

The current legal proceedings of QN are summarised below

Table 38: Current Legal Actions

Parties	Summary	Prospects of Recovery
Queensland Nickel Pty Ltd -v- The Commonwealth of Australia	The Company sought a declaration that a Division of the Clean Energy Regulations 2001 (Cth) was invalid under the Constitution. The High Court upheld the validity of the provision of the Clean Energy Regulations 2001 (Cth) and ordered the Company to pay costs. The costs are a contingent claim against the Company in the amount of $491,638.06.	Nil
Queensland Nickel Pty Ltd -v- NCA Marketing Company Pty Ltd (NCA)	NCA Marketing Company Pty Ltd (NCA) have filed a claim against the Company for $4,763,628.10 in relation to undercharged coal supplies, the Company filed a claim against NCA for $5,340,923 in damages suffered by it as a consequence of NCA's supply of 'out of spec' coal. Prior to our appointment, the Company sought further and better particulars in respect to NCA's defence and counterclaim. This proceeding is currently stayed pursuant to Section 440D of the Act.	Unknown
Queensland Nickel Pty Ltd -v- The Commonwealth of Australia and The Great Barrier Reef Marine Park Authority	The Company filed a claim in the Court to challenge the Great Barrier Reef Marine Park Authority's (GBRMPA) jurisdiction over the flow of wastewater through the 'flow to sea' pipelines, and further sought to amend the claim to include compensation for costs incurred to manage waste water via alternate means. On 23 March 2016, the Court granted the Company leave to file an amended claim in the proceedings. We are advised GBRMPA intend to file an interlocutory application to strike out the proceedings on the basis the Company is no longer the operator of the refinery, and does not have sufficient interest to bring the proceedings. The Administrators do not intend to oppose this application. It is anticipated the Joint Venture Owners, QNI Resources and QNI Metals, will make an application to substitute in these proceedings.	Nil
Department of Environment and Heritage Protection -v- Queensland Nickel Pty Ltd	The Department of Environment and Heritage Protection (DEHP) allege six (6) charges against the Company for offences under the Environmental Protections Act (EPA) relating to the time of Cyclone Yasi in early 2011. In June 2015, the DEHP advised it will not pursue one (1) of the offences	N/A

Table 38: Current Legal Actions

Parties	Summary	Prospects of Recovery
	The Company was committed for trial on two (2) indictable offences. The indictments were presented by the Department of Public Prosecution (DPP) on 22 February 2016. As a consequence of our appointment, our legal advisors attended Court and were successful in deferring the matter for further mention on 29 April 2016. The remaining three (3) charges relate to non-indictable offences, which are before the Court on 1 June 2016.	
Queensland Nickel Pty Ltd -v- The Great Barrier Reef Marine Park Authority and North Queensland Conversation Council Authority	The Company filed an application with the Administrative Appeals Tribunal (AAT) for the review of a decision by GBRMPA to release documentation under Right to Information legislation to the North Queensland Conversation Council Authority (NQCCA). We understand the purpose of the application is to prevent the release of 55 documents held by GBRMPA to the NQCCA.	Unknown
Queensland Nickel Pty Ltd -v- The Great Barrier Reef Marine Park Authority	In June 2014, GBRMPA rejected the Company's application to maintain the permit for the 'flow to sea' pipeline. The Company was unable to remedy the matter with GBRMPA through its internal review process, and subsequently filed an application for review of GBRMPA's decision with the AAT.	Unknown
Queensland Nickel Pty Ltd -v- Northern Stevedoring Services Pty Ltd	The Company filed a claim of $5,519,948 for demurrage (liquidated damages) for failure by Northern Stevedoring Services Pty Ltd (NSS) to achieve usage targets for a crane at the Port of Townsville. NSS have filed a counterclaim of $1,792,116 for unpaid invoices and damages for wrongful termination of $12,182,140. The matter was previously set for trial in June 2016, however following our appointment as Administrators, the proceedings were stayed pursuant to Section 440D of the Act. Accordingly, the trial dates have been vacated.	Unknown
Schoch -v- Mineralogy Pty Ltd, Queensland Nickel Pty Ltd and Clive Palmer	Mr Schoch sought damages for a breach of contract, misleading and deceptive conduct and unconscionable conduct. The claim was dismissed in November 2015, with Mr Schoch ordered to pay costs. We are advised representatives of Mineralogy Pty Ltd are preparing for the costs to be assessed. Further review will be required to ascertain the portion of the costs of the proceeding were incurred by the Company.	Unknown
Queensland Nickel Pty Ltd -v- Resource Equipment	The Company filed a claim for damages of $6,201,885 for a breach of duty, misleading and deceptive conduct and breach of contract following the performance of a number of evaporator units purchased by the Company being not as	Unknown

Table 38: Current Legal Actions		
Parties	**Summary**	**Prospects of Recovery**
Limited	specified. Resource Equipment Limited has filed a counterclaim totalling \$1,517,432.25 for unpaid hire charges and repair costs of associated hire equipment. This proceeding is currently stayed pursuant to Section 440D of the Act.	
Queensland Nickel Pty Ltd -v- Sino Iron Pty Ltd and Others	The Company filed a claim for damages for unconscionable conduct pursuant to the Australian Consumer Law in relation to the refusal by Sino Iron Pty Ltd and Others (Sino) to pay royalties to related party, Mineralogy Pty Ltd. Sino applied to the Court to strike out the Company's claim on the basis it was not the proper party to bring the proceedings. On 16 March 2016, the Court heard an application of the Joint Venture Owners, QNI Resources and QNI Metals, to substitute in these proceedings (amongst other things). The Company was removed as the Plaintiff, and no further action is required by the Company.	Nil

Section 439A(3)(a)

Corporations Act 2001 (Cth)

NOTICE OF SECOND MEETING OF CREDITORS
OF COMPANY UNDER ADMINISTRATION

Queensland Nickel Pty Ltd
(Administrators Appointed)
ACN 009 842 068
(the Company)

NOTICE IS HEREBY GIVEN that the Second Meeting of Creditors of the Company will be held on Friday 22 April 2016 at The Grand Ballroom, The Ville Resort-Casino, Sir Leslie Thiess Drive, Townsville Qld 4810 commencing at 11:00AM. Registration for the meeting will open at 9:30AM.

AGENDA

1. The purpose of the meeting is:-

    a) to review the report of the Administrators and their recommendation in connection with the business, property, affairs and financial circumstances of the Company; and

    b) for the creditors of the Company to resolve:-

        i) that the administration should end; or
        ii) that the Company be wound up.

2. Creditors will be requested to fix the remuneration to be paid to the Administrators, as calculated on a time basis, at the FTI Consulting Schedule of Hourly Rates, for the period 28 March 2016 to 22 April 2016.

3. If the Company is placed into Liquidation, to consider the appointment of a Committee of Inspection and if required, to determine the members; and

4. Any other business properly brought before the meeting.

Creditors wishing to vote at the meeting, who will not be attending in person or are a company, must complete and return a Proxy Form and Formal Proof of Debt Form (if not previously provided) by no later than 9:30AM Wednesday, 20 April 2016, to Link Insolvency Solutions at Locked Bag A14, Sydney South, NSW, 1235, or by facsimile (02) 9287 0309 or by email to queenslandnickel@linkmarketservices.com.au. A Proxy and Formal Proof of Debt form is *enclosed.

Dated this 11th day of April 2016

John Park
Administrator

*Encl.

Ref: NJR_449063.0002n5 – Notice of Meeting.doc

11 APRIL 2016

REMUNERATION REQUEST APPROVAL REPORT

QUEENSLAND NICKEL PTY LTD (ADMINISTRATORS APPOINTED)
ACN 009 842 068

CRITICAL THINKING
AT THE CRITICAL TIME™

Table of Contents

Part 1: Declaration

This report sets out the information the *Corporations Act* ("**Act**") and the 3rd Edition of the *Code of Professional Practice* published by the Australian Restructuring Insolvency & Turnaround Association ("**ARITA**") (formally the Insolvency Practitioners Association of Australia) requires creditors to receive before voting on resolutions with respect to our claim for remuneration at the Meeting of Creditors convened for Friday 22 April 2016.

I have undertaken a proper assessment of our claim for remuneration as detailed in this report arising from our appointment as Administrators of Queensland Nickel Pty Ltd (Administrators Appointed) ACN 009 842 068 in accordance with the law and applicable professional standards.

I am satisfied the remuneration claimed is in respect of necessary work to be properly performed, in the conduct of the external administration.

Part 2: Executive Summary

Remuneration previously determined by the Committee of Creditors

The Committee of Creditors has previously approved the following remuneration amounts:

Table 1: Remuneration previously approved	
Period	Amount (Ex GST)
18 January 2016 to 21 February 2016 (inclusive)	$1,629,266.50
22 February 2016 to 27 March 2016 (inclusive)	$1,344,505.00
Total	$2,973,771.50

I note the Administrators have not yet drawn any remuneration as there are insufficient funds held to do so.

Remuneration for which approval is sought

This report provides details of the following remuneration for which approval is sought:

Table 2: Remuneration for which approval is sought		
Period	Report Reference	Amount (Ex GST)
Resolution 1: 28 March 2016 to 22 April 2016 (inclusive)	Table 3	$1,500,000.00

Please refer to the sections of the report detailed above for full details of the calculation and composition of the remuneration for which approval is sought.

Part 3: Description of Work to be Completed

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016

Company	Queensland Nickel Pty Ltd (Administrators Appointed) ACN 009 842 068	From	28 March 2016	To	22 April 2016
Practitioners	John Park, Kelly Trenfield, Stefan Dopking & Quentin Olde	Firm	FTI Consulting (Australia) Pty Ltd		
Administration Type		Administration			

Task Area	**General Description**	**Includes**
Assets $100,000	Real estate	▪ Liaising with valuers regarding revised valuation and proposal for sale ▪ Liaising with real estate agents regarding revised proposal for sale and review of marketing material for sale ▪ Further Discussions with neighbour regarding agistment agreement and termination of same ▪ Re-appointing real estate agent to realise property ▪ Instructing solicitors in relation to preparation of sale contract and review of same ▪ Review status of mining tenements over properties and implications of conduct and compensation agreements ▪ Obtain updated valuation as a result of conduct and compensation agreements entered into by QNI Metals Pty Ltd ▪ Meet with agents to discuss strategy and setting of reserve
	Insurance	▪ Communications with broker concerning general insurance requirements and placement of covers ▪ Review insurance premiums quotes and review level of cover recommended ▪ Various discussions with insurance brokers ▪ Identification and resolution of specific insurance issues ▪ Reviewing policies of insurance ▪ Cancelling certain policies once assets sold
	Personal Property Security (PPS) claims	▪ Communications with creditors concerning PPS claims ▪ Provision of PPS claim forms to creditors ▪ Review, consideration and adjudication of PPS claims ▪ Maintaining register of PPS claims ▪ Meetings with creditors to identify goods/equipment ▪ Advising creditors of PPS claim adjudication ▪ Returning goods to creditors with valid claims

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016		
Creditors $400,000	Creditor enquiries	▪ Receiving and dealing with various creditor enquiries ▪ Responding to creditor enquiries by telephone, email, facsimile and post
	Committee of Creditors	▪ Communications with committee members ▪ Preparation of meeting notices, proxies & advertisements ▪ Distribution of meeting notices & proxies ▪ Preparation of agenda, minutes of meeting, attendance registers, proxies and other documents for meeting ▪ Attendance at Committee Meetings ▪ Preparation & lodgement of meeting minutes with ASIC
	Creditor reports & circulars	▪ Preparation of Section 439A report to creditors, Remuneration Request Approval Form, Notice of Meeting, Proof of Debt and Proxy forms ▪ Discussion with legal advisors regarding contents of Section 439A report ▪ Various internal meetings and communications to obtain input of report, discuss updates on progress and review of report ▪ Uploading various documents to FTI Consulting Creditor Portal ▪ Organising availability of meeting venue ▪ Liaising with Link Insolvency Services in preparation of distributing Section 439A report ▪ Liaising with Link Insolvency Services in preparation of and attendance at Second Meeting of Creditors
	Deed of Company Arrangement (DOCA)	▪ Various meetings with potential DOCA proponents ▪ Internal meetings to discuss progress of potential DOCA proposals ▪ Collating creditor information for potential DOCA proponents
	Processing proofs of debt (PODs)	▪ Issuing, receiving and filing PODs ▪ Maintaining POD register ▪ Liaising with Link Insolvency Services regarding POD register and creditors listing ▪ Review of PODs for voting purposes
	Second Meeting of Creditors	▪ Preparation and distribution of meeting notices, proxies and advertisements ▪ Internal meetings/discussions regarding Second Meeting of Creditors ▪ Preparation of agenda, minutes of meeting, attendance registers, proxies and other documents for meeting ▪ Attendance at Second Meeting of Creditors ▪ Responding to creditor queries regarding outcome from meeting

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016		
Employees $220,000	Employee enquiries	▪ Receiving employee enquiries ▪ Responded to employee enquiries in person via group meetings, telephone, email, facsimile and post ▪ Communications with employees concerning the voluntary administration/liquidation process and creditor meetings ▪ Communication with employees detailing how to complete proof of debt forms ▪ Communication with employees on entitlement position, options available to employees, resolving disputes over entitlements and resignations ▪ Various communications and meetings with Centrelink, Fair Entitlements Guarantee Scheme, Child Support, ATO, superannuation funds, novated lease provider, TAFE, unions and QNI Payroll departments ▪ Sourcing and providing information to employees specific to completion of FEG claim forms ▪ Preparation for and attendance at Fairwork conciliations ▪ Completion of unemployment claim forms on behalf of employees ▪ Provision of information from employees, specifically, contracts and training records
	Calculating entitlements	▪ Reviewing employee files and company books and records ▪ Reviewing awards and EBA agreements ▪ Reconciling superannuation accounts and entitlement balances ▪ Calculate estimated employee entitlements and communicate ▪ Issuing correspondence to employees enclosing calculation of estimated entitlements ▪ Other various issues surrounding employee entitlements
	Workers compensation	▪ Reviewing policies of insurance ▪ Investigation of claim/s ▪ Communications with claimants ▪ Communications with insurer and solicitors ▪ Communications with insurance broker to activate policy ▪ Communications with previous brokers
	Other issues	▪ Communications with Centrelink ▪ Communications with Fair Entitlements Guarantee Scheme ▪ Communications with Child Support ▪ Communications with the ATO regarding PAYG and superannuation ▪ Communications with superannuation funds

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016		
		▪ Communications with novated Lease providers ▪ Communications with TAFE providers regarding apprenticeships ▪ Communications with Unions ▪ Communications with Company Human Resources and payroll departments
	FEG	▪ Liaising with FEG regarding claims process ▪ Assisting FEG with employee communication ▪ Preparation and submission of requests to FEG regarding provision of employee information and the early activation of FEG eligibility ▪ Preparation of entitlements verification schedule
Trade On $160,000	Trade On Management	▪ Communication with Company management and staff regarding banking procedures, sales procedures, and handover for close ▪ Deal with end of month accounting and collect information required to close accounts ▪ Communication with suppliers including via telephone, and emails on supplies, payment timing and queries ▪ Reviewing POs to suppliers and checking terms of invoices ▪ Maintaining register of approved POs and other invoices and liabilities incurred ▪ Attendance on site to deal with a myriad of trading issues including employee queries ▪ Meet with various government departments on safety and environmental issues ▪ Conduct regular meetings and discussions with key stakeholders, including State Government departments ▪ Review and discuss cash flow forecast/liabilities ▪ Communicate with financiers in relation to term deposits held, bank guarantees and letters of credit issued and funds to be refunded ▪ Review and analyse nickel price for cash flow modelling and QP adjustment calculation and invoicing ▪ Communication with Office of State Revenue concerning payroll tax lodgements and liability ▪ Consider awards and Enterprise Bargaining Agreements and review employee files and records ▪ Communication with ATO on reporting and payment obligations under different roles and registrations, timing of refunds and allocation of amounts
	Suppliers	▪ Liaising with various suppliers via phone, email and post regarding approved invoices for payment, timing of payment and liability amounts
	Occupation and Workplace Health & Safety	▪ Communications with remaining QN employees ▪ Review of required scope to address issues raised

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016		
	Cash and bank accounts	▪ Reconciliation of bank accounts including overseas accounts ▪ Communications with financiers to approve and release payments ▪ Communications with bank on frozen accounts
	Debtors	▪ Reviewing and assessing debtor ledgers ▪ Communications (written and oral) with various debtors on payments due, QP adjustment, invoices issued
	Processing receipts and payments	▪ Accounting procedures including entry of payments and receipts ▪ Assisting with the receipt and payment of funds ▪ Extracting receipts and payments data from SAP and input into MYOB for receipts and payments reporting
Investigation $300,000	Budgeting and financial reporting	▪ Reviewing company's budgets and Joint Venture financial statements ▪ Review of relevant Joint Venture agreement and documentation ▪ Analysis of financial reports and trading performance (profit/loss) ▪ Internal meetings to discuss Joint Venture trading performance and other relevant matters
	Conducting investigation into affairs of the Company (Including forensic analysis)	▪ Collecting company books and records ▪ Further preservation of company electronic records ▪ Reviewing books and records ▪ Investigating and understanding company nature and history ▪ Obtaining and reviewing statutory searches ▪ Preparation of deficiency statement ▪ Investigating specific transactions warranting investigation, including comprehensive analysis and conclusion of findings ▪ Conducting forensic analysis/trace of funds ▪ Communications with officers and/ or employees concerning company information ▪ Continued preparation of investigation file
	Determine potential recoveries available	▪ Review of company records and conduct thorough investigations to identify potential recovery actions pursuable by a Liquidator
Administration $250,000	General	▪ Word processing including correspondence, file notes, agendas and minutes Care and maintenance of the file
	File review/checklist/document maintenance	▪ Administration review ▪ Document filing and maintenance ▪ File reviews

Table 3: Resolution 1 for work to be completed from 28 March 2016 to 22 April 2016		
		▪ Updating checklist
	Travel	▪ Travel to and from Townsville
	Receipts & Payments	▪ Internal receipts & payments processing ▪ Preparation of bank transfers
	Books & Records	▪ Communicating with various external parties (solicitors, accountants etc) to collect books and records of the Company
	Planning review	▪ Weekly internal meeting to discuss the status of the administration ▪ Ad hoc internal meetings concerning the status of the administration
Strategic Communications $70,000	Communication Consulting	▪ Liaising with various media outlets regarding appointment and Section 439A report ▪ Preparing media statements and releasing statements to media outlets ▪ Dealing with various media enquiries
	Second Meeting of Creditors	▪ Dealing with media queries regarding Second Meeting of Creditors ▪ Attending Second Meeting of Creditors ▪ Facilitating Media at Second Meeting of Creditors ▪ Holding Media conference for/after Second Meeting of Creditors

Part 4: Calculation of Remuneration

Resolution 1: Remuneration from 28 March 2016 to 22 April 2016(inclusive)

This resolution is with respect to work that has not been carried out when this report was prepared. As such it is not possible to provide a calculation of the remuneration. A calculation of the cost of time incurred from 28 March 2016 to the date of the Meeting of Creditors from will be available at the Meeting of Creditors on request.

Part 5: Statement of Remuneration Claim

The Act requires our remuneration to be determined before it can be drawn by us. The determination must be made by creditors at a Meeting of Creditors, by a Committee of Creditors or by the Court.

At the Meeting of Creditors, we will ask creditors to determine our remuneration by passing the following resolution:

Resolution 1: Remuneration from 28 March 2016 to 22 April 2016 (Inclusive)

> *The remuneration of the Administrators of Queensland Nickel Pty Ltd (Administrators Appointed) for the period 28 March 2016 to 22 April 2016 (inclusive) be determined at a sum equal to the cost of time incurred by the Administrators and the staff of FTI Consulting, calculated in accordance with the hourly rates applicable to the grades or classifications set out in the FTI Consulting Schedule of Standard Rates effective 1 January 2016 in the amount of $1,500,000.00 (excluding GST) and that the Administrators be authorised to draw same.*

Remuneration is calculated in accordance with the hourly rates applicable to the grades or classifications set out in the FTI Consulting of Standard Rates effective 1 January 2016 which appears at Schedule 1.

At this stage, based on the information presently available to us, we consider that it will be necessary to convene further meetings of the Committee to seek further approval of remuneration.

Part 6: Disbursements

Explanatory note on disbursements

Disbursements are divided into three types:

- Externally provided professional services - these are recovered at cost. An example of an externally provided professional service disbursement is legal fees.
- Externally provided non-professional costs such as travel, accommodation and search fees - these are recovered at cost.
- Internal disbursements such as photocopying, printing and postage. These disbursements, if charged to the external administration, would generally be charged at cost; though some expenses such as telephone calls, photocopying and printing may be charged at a rate which recoups both variable and fixed costs. The recovery of these costs must be on a reasonable commercial basis.

I have undertaken a proper assessment of disbursements incurred during this extremal administration in accordance with the law and applicable professional standards. I am satisfied that the disbursements incurred are necessary and proper.

The following disbursements have been incurred by the external administration to FTI Consulting during the period 18 January 2016 to 27 March 2016.

Table 4: Disbursements Incurred from 18 January 2016 to 27 March 2016

Type	Basis of charge Excl GST	Amount excl GST $
Externally provided non-professional services		
Search Fees	At cost	2,605.32
Travel Airfares	At cost	41,314.69
Accomodation	At cost	40,123.16
Travel Agent Fees	At cost	1,590.44
Offsite Internet Fees	At cost	104.13
Car Hire	At cost	11,501.31
Meal Expenses	At cost	8,722.76
Meeting Room Hire	At cost	5,366.30
Taxi Fees	At cost	4,213.10
Courier Fees	At cost	715.65
Sub-total		**116,256.86**
Internal disbursements		
Milage	Cents per km Method (ATO Rates)	94.50
Office Supplies	At cost	1,655.85
Parking Expense	At cost	1,882.97
Per Diem Expense	At cost	2,879.28
Credit Card Fee	At cost	231.53
Postage Expense	At cost	267.97
Printing	$0.09 per unit of time charged	2,793.51
Telephone	$0.10 per unit of time charged	3,945.17
Sub-total		**13,750.78**
Total (Excluding GST)		**130,007.64**
GST		**13,000.76**
Total (Including GST)		**143,008.40**

Where an amount has been paid to FTI Consulting as reimbursement of externally provided services and costs, such payment is on account of an amount previously paid by FTI Consulting due to a lack of funds in the external administration at the time the payment was due pursuant to the invoicing of FTI Consulting by the supplier. No appointee disbursements have been paid to FTI Consulting as at the date of this report.

Where payments to third parties have been made from the bank account of the external administration, those payments are also included in the summary of receipts and payments which appears at Annexure 2 of the Report to Creditors which accompanies this report.

Creditor approval for disbursements is not required. However creditors have the right to question the incurring of the disbursements and can challenge disbursements in Court.

Future disbursements provided by FTI Consulting will be charged to the external administration on the following basis

Nature of Disbursement	Rate (excluding GST)
Advertising and search fees	At cost
Couriers and deliveries	At cost
Postage	At cost
Facsimile, Printing and photocopying	$0.09 per unit of time charged
Telephone calls	$0.10 per unit of time charged
Staff travel - mileage	Cents per km method (per ATO rates)
Other staff travel/out of pockets	At cost
Storage of records (including boxes)	At cost

Part 7: Report on Progress of the External Administration

The progress of the external administration is detailed in the Report to Creditors which accompanies this report.

Part 8: Summary of Receipts and Payments

A summary of receipts and payments to and from the external administration bank account for the period 18 January 2016 to 31 March 2016 appears at Annexure 2 of the Section 439A Report which accompanies this report.

If any large or exceptional receipts and payments are received or made after this report is prepared but before the meeting at which this claim for remuneration will be considered, additional information will be provided at the meeting.

Part 9: ASIC Information Sheet on Remuneration Approval

ASIC has produced a series of information sheets about insolvency which includes *"Information Sheet 85 Approving Fees: A Guide to Creditors"*. Those information sheets can be downloaded from the ASIC web site *www.asic.gov.au/insolvencyinfosheets* or from the ARITA web site *www.arita.com.au*.

Part 10: Queries

Please let us know if you have any queries or require any further information concerning our claim for remuneration.

Yours faithfully
FTI Consulting

John Park
Administrator

Schedule 1: Schedules of Rates

FTI Consulting Standard Rates effective 1 January 2016 (excluding GST) Corporate Finance & Restructuring and Forensic Accounting & Advisory Services		
Typical classification	**$/hour**	**General guide to classifications**
Senior Managing Director	625	Registered/Official Liquidator and/or Trustee, with specialist skills and extensive experience in all forms of insolvency administrations. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to the administration.
Managing Director	575	Specialist skills brought to the administration. Extensive experience in managing large, complex engagements at a very senior level over many years. Can deputise for the appointee. May also be a Registered/Official Liquidator and/or Trustee. Alternatively, has extensive leadership/senior management experience in business or industry.
Senior Director	565	Extensive experience in managing large, complex engagements at a very senior level over many years. Can deputise for the appointee, where required. May also be a Registered/Official Liquidator and/or Trustee or have experience sufficient to support an application to become registered. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Director	510	Significant experience across all types of administrations. Strong technical and commercial skills. Has primary conduct of small to large administrations, controlling a team of professionals. Answerable to the appointee, but otherwise responsible for all aspects of the administration. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Senior Consultant 2	425	Typically an ARITA professional member. Well developed technical and commercial skills. Has experience in complex matters and has conduct of small to medium administrations, supervising a small team of professionals. Assists planning and control of medium to larger administrations.
Senior Consultant 1	370	Assists with the planning and control of small to medium administrations. May have the conduct of minor administrations. Can supervise staff. Has experience performing more difficult tasks on larger administrations.
Consultant 2	350	Typically ICAA qualified (or similar). Required to control the tasks on small administrations and is responsible for assisting with tasks on medium to large administrations.
Consultant 1	305	Qualified accountant with several years experience. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate 2	275	Typically a qualified accountant. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate 1	255	Typically a university undergraduate or graduate. Required to assist with day-to-day tasks under the supervision of senior staff.
Junior Associate	180	Undergraduate in the latter stage of their university degree.
Administration 2	180	Well developed administrative skills with significant experience supporting professional staff, including superior knowledge of software packages, personal assistance work and/or office management. May also have appropriate bookkeeping or similar skills.
Junior Accountant	145	Undergraduate in the early stage of their university degree.
Administration 1	145	Has appropriate skills and experience to support professional staff in an administrative capacity.

Schedule 1: Schedules of Rates (Cont'd)

FTI Consulting Standard Rates effective 1 January 2016 (excluding GST) **Strategic Communications**		
Typical classification	**$/hour**	**General guide to classifications**
Senior Managing Director	600	Specialist skills and extensive experience in all forms of strategic communications. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to corporate communications.
Managing Director	550	Extensive experience in managing large, complex engagements at a very senior level over many years. Alternatively, has proven leadership experience in business or industry, bringing specialist expertise and knowledge to corporate communications.
Senior Director	500	Extensive experience in managing large, complex engagements at a very senior level over many years. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Director	400	Significant experience across all types of communications. Strong technical and commercial skills. Has primary conduct of small to large projects, controlling a team of professionals. Answerable to the senior director, but otherwise responsible for all aspects of the project. Alternatively, has significant senior management experience in business or industry, with specialist skills and/or qualifications.
Senior Consultant	350	Assists with the planning and control of small to medium projects. May have the conduct of minor projects. Can supervise staff. Has experience performing more difficult tasks on larger projects.
Consultant	300	Qualified consultant with several years' experience. Required to assist with day-to-day tasks under the supervision of senior staff.
Associate	250	Typically a university undergraduate or graduate. Required to assist with day-to-day tasks under the supervision of senior staff.
Administration	150	Has appropriate skills and experience to support professional staff in an administrative capacity.

Section 600G
Regulation 5.6.11A

ELECTRONIC COMMUNICATION REQUEST

Queensland Nickel Pty Ltd
(Administrators Appointed)
ACN 009 842 068
("the Company")

If you wish to receive future communication electronically please complete this authority form and return it to Link Insolvency Solutions at Locked Bag A14, Sydney South, NSW, 1235, by fax to (02) 9287 0309 or by emailing queenslandnickel@linkmarketservices.com.au.

I ______________________________ , the representative of __________________________________, being a creditor of Queensland Nickel Pty Ltd (Administrators Appointed) elect, pursuant to Section 600G of the *Corporations Act 2001 (Cth)* and Regulation 5.6.11A of the *Corporations Regulations 2001*, to receive future notices, reports or general communication electronically via the following email address:

Creditor Name: ____

Email Address: ____

I am the Creditor, employed by the Creditor or the Creditor's agent duly authorised to make this statement.

....	....
Name of Authorised Person	**Signature**
....	....
Position of Authorised Person (if applicable)	**Date**

Ref: MWW_449063.0002-Electronic Communication Request.docx

Subregulation 5.6.29

FORM 532
Corporations Act 2001
APPOINTMENT OF PROXY
Queensland Nickel Pty. Ltd.
(Administrators Appointed)
ACN 009 842 068
(the Company)

A. Appointment of a proxy

I/We, ...
(If a company, strike out "I" and set out full name of the company) (Note: If a corporate creditor, such a trustee of a self-managed superannuation fund, wants to be represented at the Second Meeting, it must approve an individual to act on its behalf by completing this proxy form)

of ....
(address)

a creditor of the Company appoint...

as my/our proxy, or in his/her absence.., to vote at the meeting of creditors to be held on **22 April 2016 at The Ville Resort – Casino, Sir Leslie Thiess Drive, Townsville QLD 4810 at 11:00 am (AEST)** or at any adjournment of that meeting.

B. Voting directions

Option 1: ☐ If appointed as a general proxy, as he/she determines on my/our behalf
(Please proceed to section C ie do not complete the table below)

and/or

Option 2: ☐ If appointed as a special proxy in the manner set out below:
(Please complete the table below before proceeding to section C)

No	Resolution	For	Against	Abstain
1	That the Company be wound up	☐	☐	☐
2	That the Administration should end	☐	☐	☐

C. Signature *(in accordance with Sections 127 or 250D of the Corporations Act 2001)*

If the creditor is an individual

....

If the creditor is a company

....
Director/Company secretary

.... Print name

Dated this day of 2016

CERTIFICATE OF WITNESS

Please Note: *This certificate is to be completed only where the person giving the proxy is blind or incapable of writing. The signature of the creditor is not to be attested by the person nominated as proxy.*

I,__________________________of__________________________certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him before he attached his signature or mark to the instrument.

Signature of witness: __________________________

ACN: 009 842 068 Subregulation 5.6.49(2)

FORM 535

Corporations Act 2001

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

To the Administrators of Queensland Nickel Pty Ltd (Administrators Appointed) (**the Company**)

1. This is to state that the Company was on 18 January 2016, and still is, justly and truly indebted:

____(insert Creditor Name)

____

____(insert Creditor Address)

for $.......................................

Particulars of the debt are:

Date *(date when the debt arose)*	**Consideration** *(state how debt arose and attach supporting documentation)*	**Amount ($)**	**Remarks** *(include details of voucher substantiating payment)*

2. To my knowledge or belief the Creditor has not, nor has any person by the Creditor's order, had or received any satisfaction or security for the sum or any part of it except for the following *(insert particulars of all securities held. If the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form).*

Date	Drawer	Acceptor	Amount ($)	Due Date

*3A. I am employed by the Creditor and authorised in writing by the Creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

*3B. I am the Creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied.

** Items 3A & 3B - delete both if the Creditor is a natural person and this proof is made by the Creditor personally. In other cases, if, for example, you are the director of a corporate Creditor or the solicitor or accountant of the Creditor, you sign this form as the Creditor's authorised agent (delete item 3A). If you are an authorised employee of the Creditor (credit manager etc), delete item 3B.*

Complete all sections

I have attached the following documents (tick as many as appropriate):

☐Invoices ☐Judgement from Court ☐Letters of demand ☐Orders from Company
☐Monthly statements ☐Statutory demand ☐Credit application ☐Guarantee from Company
☐Creditors authority letter ☐Other documents

Dated ....../...../....... Name ....Signatory...

Phone ....

☐ I nominate to receive future notices, reports and general communication electronically via the following email address pursuant to Section 600G of the *Corporations Act 2001 (Cth)*:

Email address..